

COURT OF AUDITORS



In accordance with the provisions of the Treaties (Article 78f(4) ECSC; Article 206a(4) EEC; and Article 180a(4) EAEC) and the Financial Regulation of 21 December 1977 (Article 83), as well as the corresponding provisions relating to the European Development Funds, the Court of Auditors of the European Communities, at its meeting on 17 November 1988, adopted its

ANNUAL REPORT

concerning the financial year 1987

The report, accompanied by the institutions' replies to the Court's observations, was transmitted to the authorities responsible for giving discharge and to the other institutions by 30 November 1988

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FOREWORD

1. The footnotes indicated in the text of each chapter are listed at the end of the chapter in question.
2. The key to the abbreviations and symbols used in this report is given on the second page of Annex III.
3. The institutions' replies are set out after the annexes to this report and are marked with a grey strip along the edge.

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the financial year 1987**

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**Annual report of the Court of Auditors
concerning the financial year 1987****INTRODUCTION****THE PROCEDURE FOR THE ANNUAL
REPORT**

1. This is the eleventh annual report of the Court of Auditors of the European Communities and it concerns the accounts for the financial year 1987 ⁽¹⁾.

2. The Treaties ⁽²⁾ and the Financial Regulation ⁽³⁾ require the Commission to draw up, for each financial year, the accounts relating to the implementation of the budget and a financial statement of the assets and liabilities of the Community, together with a financial analysis of the financial year, and to forward these documents to the European Parliament, the Council and the Court of Auditors by 1 June of the following financial year at the latest. All the comments which it considers suitable for inclusion in its annual report are sent by the Court to the Commission by 15 July 1988, and those observations that relate to the other institutions are likewise sent to the respective recipients. The Financial Regulation stipulates that each institution must send its reply to the Court by 31 October at the latest and that the Court must draw up its annual report by 30 November ⁽⁴⁾. In practice, the formal replies are preceded by bilateral discussions between the institutions and the Court. These discussions cover both the Court's comments and the draft replies which have been made available to the Court on an informal basis. The aim of this procedure is, where appropriate, to modify both the comments and the replies, so that the points of view expressed are presented to the reader as objectively as possible. The Court has not found it necessary to express its own position on the definitive replies received from the institutions after the bilateral discussion procedure. This attitude does not, however, imply that the Court necessarily agrees with the content of all the replies.

3. In the light of the Court's report in particular, Parliament, acting on a recommendation from the Council, gives its opinion on the discharge to be given to the Commission in respect of the implementation of the budget by 30 April of the following year.

⁽¹⁾ The footnotes are listed together at the end of the introduction.

**CONTENT OF THE ANNUAL REPORT
CONCERNING THE FINANCIAL YEAR
1987**

4. This annual report consists of two parts and three annexes and is accompanied by the institutions' replies.

5. In Part I of the report, Chapter 1 sets out the Court's overall message concerning the Communities' financial situation.

6. Chapter 2 contains all the Court's observations on the results of a horizontal audit of the implementation of the budget and an examination of the legality and regularity of operations during the year, irrespective of budgetary sector. This chapter also contains all the Court's findings with regard to accounting matters.

7. Chapters 3 to 11 deal more specifically with the Court's findings with regard to sound financial management in selected areas. The observations in these chapters are potentially very wide in scope, and, unlike the observations in Chapter 2, they may in some cases go beyond the 1987 annual accounts.

8. Part II of the report is concerned with the European Development Funds, which do not constitute an integral part of the general budget of the Communities but are financed by specific contributions from the Member States.

9. Annex I to the report gives the allocation of responsibilities amongst the Members of the Court at the time this report was adopted. Annex II lists the reports and opinions adopted by the Court over the past five years, whilst Annex III contains summary tables and various detailed analyses of the financial information

relating to the general budget of the Communities and to the European Development Funds.

OPINIONS

SPECIFIC ANNUAL REPORTS

10. The Court has sent separate reports to the relevant discharge authorities on the 1987 accounts of JET (the Joint European Torus), the European Centre for the Development of Vocational Training (Berlin), the European Foundation for the Improvement of Living and Working Conditions (Dublin), the Euratom Supply Agency and the European Schools. The Court has also drawn up a separate annual report on those accounting transactions that relate to the operational activities of the ECSC and on the Commission's financial management of these transactions, as required by Article 78f(5) of the ECSC Treaty.

SPECIAL REPORTS

11. Furthermore, since its last annual report, the Court has adopted the following special reports, on:

- (a) the management of counterpart funds in respect of food aid ⁽⁵⁾;
- (b) national and Community systems and procedures relating to the management of the European Social Fund ⁽⁶⁾;
- (c) the integrated approach to Community financing of structural measures ⁽⁷⁾;
- (d) the common organization of the market in fishery products in Spain and Portugal ⁽⁸⁾;
- (e) regional cooperation financed under the Lomé Conventions ⁽⁹⁾;
- (f) management and control of public storage ⁽¹⁰⁾.

12. In this connection, the Court would like to point out to the discharge authority and to readers of its annual report that the special reports are complementary to this annual report, in particular in that they supply additional information.

13. Since the adoption of its last annual report, the Court has also adopted opinions on:

- (a) proposals for a Council Regulation (ECSC, EEC, Euratom) amending the Financial Regulation of 21 December 1977 applicable to the general budget ⁽¹¹⁾;
- (b) a proposal for a Council Regulation amending Council Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the EAGGF, Guarantee Section (depreciation) ⁽¹²⁾;
- (c) a proposal for a Council Regulation amending Regulation (EEC) No 729/70 on the financing of the common agricultural policy, as last amended by Regulation (EEC) No 3183/87 of 19 October 1987 introducing special rules for the financing of the common agricultural policy ⁽¹³⁾;
- (d) a proposal for an amendment to the Financial Regulation applicable to the budget of the Joint European Torus (JET), Joint Undertaking ⁽¹⁴⁾;
- (e) a proposal for a Council Regulation (ECSC, EEC, Euratom) on the definitive uniform arrangements for the collection of own resources accruing from VAT ⁽¹⁵⁾;
- (f) a proposal for the amendment of Article 12 of Regulation (EEC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources ⁽¹⁶⁾;
- (g) a draft Financial Regulation of the European Schools ⁽¹⁷⁾;
- (h) a proposal for a Council Regulation (ECSC, EEC, Euratom) implementing the Decision of 24 June 1988 on the Communities' system of own resources ⁽¹⁸⁾.

COURT BUDGET AND STAFF

AUDIT OF THE COURT'S ACCOUNTS

14. The Court's expenditure in 1987 (payments against appropriations for 1987 plus payments against carry-overs from 1986) was 24,5 Mio ECU.

15. The budgets for 1986 and 1987 provided for the following numbers of posts:

Category	1986	1987
Category A	124	132
Category LA	44	46
Category B	70	74
Category C	82	86
Category D	25	28
Total	345	366 ⁽¹⁹⁾

16. Under the Treaties, the Court is required to examine the accounts of all revenue and expenditure for all the institutions, including itself. The arrangements which the Court introduced in 1983 for the audit of its own accounts provide that the audit of a given topic in the other institutions shall also include an examination of the use made of the corresponding appropriations in the Court's budget. Any observations arising from this examination are included in the relevant chapter of the Court's annual report. Furthermore, the Court has engaged a private auditing firm to audit its accounts for the financial year 1987.

- (1) The annual report is produced in accordance with the:
ECSC Treaty, Article 78f(4);
EEC Treaty, Article 206a(4);
EAEC Treaty, Article 180a(4);
Article 83 of the Financial Regulation of 21 December 1977, OJ L 356, 31.12.1977, and with similar provisions in each of the Financial Regulations for the third, fourth, fifth and sixth European Development Funds, respectively:
(i) Council Decision 71/68/EEC, OJ L 31, 8.2.1971;
(ii) Council Decision 76/647/EEC, OJ L 229, 20.8.1976;
(iii) Council Decision 81/215/EEC, OJ L 101, 11.4.1981;
(iv) Council Decision 86/548/EEC, OJ L 325, 20.11.1986.
- (2) ECSC Treaty, Article 78d;
EEC Treaty, Article 205a;
EAEC Treaty, Article 179a.
- (3) Article 77.
- (4) Articles 83 and 84 of the Financial Regulation.

- (5) Special report No 7/87, OJ C 31, 4.2.1988.
(6) Special report No 1/88, OJ C 126, 16.5.1988.
(7) Special report No 2/88, OJ C 188, 18.7.1988.
(8) Special report No 3/88, OJ C 188, 18.7.1988.
(9) Special report No 4/88, OJ C 188, 18.7.1988.
(10) Special report No 5/88, OJ C 274, 24.10.1988.
(11) Opinion No 6/87, OJ C 337, 16.12.1987.
Opinion No 7/87, OJ C 339, 17.12.1987.
Opinion No 8/87, OJ C 339, 17.12.1987.
Opinion No 1/88, OJ C 166, 25.6.1988.
(12) Opinion No 2/88, OJ C 166, 25.6.1988.
(13) Opinion No 3/88, OJ C 166, 25.6.1988.
(14) Opinion No 4/88, not published.
(15) Opinion No 5/88, OJ C 191, 20.7.1988.
(16) Opinion No 6/88, OJ C 212, 12.8.1988.
(17) Opinion No 7/88, not published.
(18) Opinion No 8/88, OJ C 313, 8.12.1988.
(19) Including 310 permanent posts and 56 temporary posts.

PART ONE

General budget of the European Communities

CHAPTER 1

General matters

1.0. TABLE OF CONTENTS	Paragraph reference
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MAIN BUDGETARY DATA RESULTING FROM THE ACCOUNTS FOR THE FINANCIAL YEAR 1987

payment. On 17 July 1987, supplementary and amending budget No 1/87⁽²⁾ increased these amounts to 37 452,8 Mio ECU and 36 168,4 Mio ECU respectively.

Introduction

1.1. After a period at the beginning of the financial year during which the system of provisional twelfths was applied, the general budget of the European Communities for the financial year 1987⁽¹⁾ was adopted on 19 February 1987 and consisted of a total of 37 414,9 Mio ECU of appropriations for commitment and a total of 36 313,4 Mio ECU of revenue and appropriations for

The accounting surplus and the actual deficit

1.2. The revenue and expenditure account of the European Communities for the financial year 1987 shows that revenue was 521 Mio ECU in excess of the payments made. Although the account was established by the Commission in accordance with the legislation in force on 31 December 1987, this out-turn, which is positive only in book-keeping terms, should not be allowed to obscure the fact that payments amounting to 6 775 Mio ECU, that is, more than 18 % of the final budget for the financial year, were not charged to the 1987 budget, notwithstanding that they corresponded to items of expenditure which

⁽¹⁾ The footnotes are listed together at the end of the chapter.

were effectively incurred during 1987. If these sums are included, there is a deficit for the financial year, amounting to 6 254 Mio ECU, which the Court has calculated in the following way:

(a) accounting surplus for 1987	+ 521,0 Mio ECU
(b) Charging to Members States of two months of agricultural expenditure months of agricultural expenditure due in 1987	− 4 546,6 Mio ECU
(c) debts resulting from the special programme for butter disposal (Council Regulation (EEC) No 801/87 of 16 March 1987 ⁽³⁾) which was carried out in 1987 on the basis of pre-financing by the Member States but for which refunds will not begin until 1989	− 1 534,8 Mio ECU
(d) carry-over to 1988 of refunds due to the Member States:	
— sums due in return for the collection of own resources ⁽⁴⁾	− 442,7 Mio ECU
— refundable advances granted by the Member States to the Communities in 1984 ⁽⁵⁾	250,9 Mio ECU
Total deficit:	− 6 254 Mio ECU

1.3. Moreover, again according to the revenue and expenditure account, expenditure under the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) increased during 1987 by 3,8 %, from 22 133,9 Mio ECU to 22 967,0 Mio ECU, but this way of presenting the figures does not give a true picture of how EAGGF Guarantee Section expenditure increased. The fact is that these sums need to be adjusted, firstly by attributing agricultural spending carried forward to subsequent financial years to the actual financial years under which it would normally have been entered in the accounts, which is especially important in the case of the financial year 1987 (+ 6 081,4 Mio ECU, see paragraph 1.2(b) and (c), and — 692,7 Mio ECU of 1986 expenditure charged to 1987) and then by taking account of all so-called 'negative' items of agricultural expenditure (see *Table 1.1*).

1.4. Once the adjustments mentioned in paragraph 1.3 are made, EAGGF Guarantee Section expenditure increases from 19 225,6 Mio ECU in 1984 to 20 567,7 Mio ECU (+ 7 %) in 1985, 24 132,3 Mio ECU (+ 17,3 %) in 1986 and 30 208,3 Mio ECU (+ 25,2 %) in 1987, that is, an increase that is distinctly higher than that of the own resources base, which agricultural spending ought not to have exceeded, according to the conclusions reached at the European Council meeting in Fontainebleau in 1984. In fact, the own resources base increased by 5,9 % in 1985, 4,3 % in 1986 and 5,6 % in 1987.

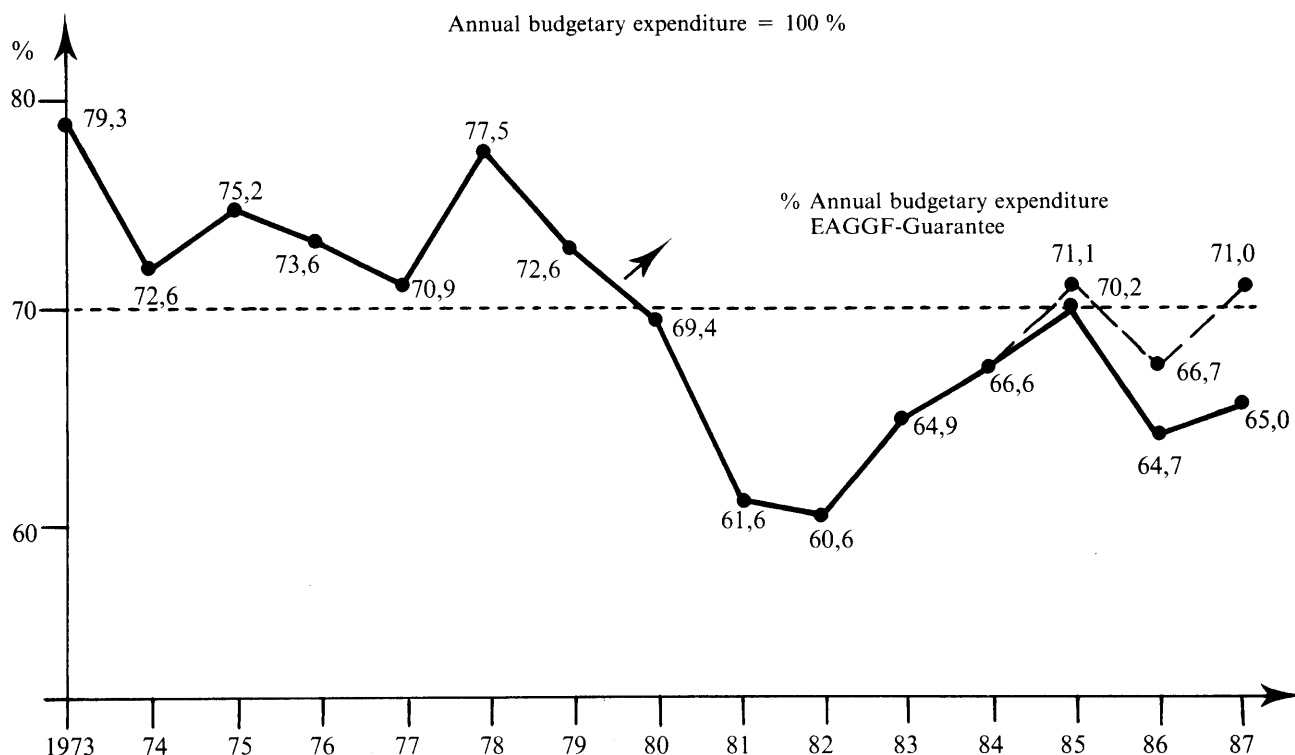
Table 1.1 — EAGGF-Guarantee negative expenditure in 1987

(Mio ECU)		
Field	Article/Item	Sum
(A)		
Cereals and rice	1030: Co-responsibility levies	378,7
Oil seeds	1306: Intervention storage	0,4
Milk	207: Financial contribution by milk producers	601,3
Monetary compensation amounts (MCAs)	2802: MCAs on imports levied by importing Member States	121,8
	2804: MCAs on exports levied by exporting Member States	542,2
Miscellaneous	1029; 184; 2060	0,1
<i>Subtotal (A)</i>		<i>1 644,5</i>
(B)		
Clearances	290: Clearance of previous years' accounts	208,1
Grand total		1 852,6

1.5. Again, on the evidence of the revenue and expenditure account, the relative share of EAGGF Guarantee Section expenditure in total Community expenditure would appear to amount to 65 % in 1987, which, as a percentage, is comparable to the corresponding figure for 1986. Once again, though, this figure needs to be generously adjusted in an upward direction so as to take account of the corrections mentioned in the previous paragraph, in which case it would go up to 71,0 % in 1987 as compared with 66,7 % in 1986 (see *Table 1.2*).

1.6. In its previous annual reports, the Court drew the discharge authorities' attention to various worrying signs that had appeared in previous financial years. These same worrying signs were still to be seen during the financial year 1987. They were the budgetary authority's inability to adopt the budget within the time limits necessary to ensure normal management for the financial year, the continuing budgetary imbalance and, finally, the delay in the revision of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities ⁽⁶⁾. In order to be able to cope with this disorder in their financial and regulatory situation, the Communities have adopted, since the financial year 1983, various expedients which have already been discussed in detail by the Court in previous annual reports and which have mainly had the effect of seriously undermining the principle of the annual nature of the budget.

Table 1.2 — Relative share of annual EAGGF-Guarantee expenditure in total annual budgetary expenditure ⁽¹⁾ (1973-87)



⁽¹⁾ Annual expenditure = payments against appropriations for the financial year plus payments against carry-overs from the previous financial year.

Note: For the financial years 1985, 1986 and 1987, the relative shares of 70,2 %, 64,7 % and 65,0 % were calculated from the figures in the revenue and expenditure account. The relative shares of 71,1 %, 66,7 % and 71,0 % (dotted lines) were calculated by the Court for the EAGGF-Guarantee bearing in mind the corrections mentioned in paragraph 1.5.

1.7. During the financial year 1987, as indicated in paragraphs 1.8 and 1.9, the Communities amended the length of the Guarantee Section's financial year and the accounting methods used to set out the results of the management of this section of the Fund.

1.8. Although Article 5 of the Financial Regulation provides for the financial year to run from 1 January to 31 December, EAGGF Guarantee Section expenditure, which accounts for more than two-thirds of the budget, now follows a financial year beginning on 16 October and ending on 15 October of the following year, with that part arising from public storage following a financial year beginning on 16 September and ending on the following 15 September. The first manipulation of the length of the agricultural financial year occurred late in 1983, when Commission Regulation (EEC) No 3184/83 of 31 October 1983 ⁽⁷⁾ shortened the accounting year for public storage expenditure by one month, thereby postponing about 150 Mio ECU to the following financial year. In 1987, the length of the financial year 1987 was reduced to approximately 10 months, as a result of Council Regulation (EEC) No 3183/87 of 17 October 1987 ⁽⁸⁾, which enabled the Commission to defer charging almost two months of EAGGF Guarantee Section expenditure belonging to the financial year 1987 to the Community

budget. Finally, Regulation (EEC) No 2048/88 of 24 June 1988 ⁽⁹⁾, which was adopted notwithstanding the negative opinion expressed by the Court ⁽¹⁰⁾, has had the effect of reducing the duration of the financial year 1988 to 11½ months.

1.9. By successively adjusting the timing of the agricultural financial year so as to fit the appropriations available, or by carrying over other items of expenditure to subsequent financial years, the Community has managed to maintain the semblance of a balanced budget. But such expedients have serious consequences for budgetary control. The fact is that the political objectives set out in the European Council decision taken at the 1984 meeting in Fontainebleau, which said that agricultural spending should not increase at a faster rate than the Community's own resources, or the superficially more binding objectives regarding budgetary discipline included in the conclusions of the 1988 Brussels meeting of the European Council, lose all meaning and effectiveness if the principle of the continuity of accounting procedures from one financial year to the other is not strictly observed. The accounts that have been submitted by the Commission in recent years do not display an acceptable degree of consistency and the section entitled 'Summary of main accounting principles' in the 1987 accounts does not even show the substantial amendments to the regulations that have occurred.

1.10. It is not easy to argue that these changes were made purely because of their merits from the point of view of theory; on the contrary, the Court is obliged to conclude that the changes were made with the intention of artificially restricting the rate of increase of agricultural guarantee spending so as to keep it within the limits of available own resources, in accordance with the budgetary discipline guidelines laid down by the European Council at its Fontainebleau meeting, and thus to give the appearance that the facts were in agreement with the legislation.

Monitoring the implementation of the budget

1.11. Including the appropriations carried over from the financial year 1986, the final appropriations for commitment and payment available in 1987 amounted to, respectively, 39 801,5 Mio ECU and 37 575,8 Mio ECU. All in all, 96,7 % of the available appropriations for commitment were used (93,9 % in 1985 and 95 % in 1986) and 94,0 % of the available appropriations for payment (95,2 % in 1985 and 94,3 % in 1986).

1.12. Disregarding EAGGF-Guarantee payments, it can be seen that, as regards 'compulsory expenditure' (CE) ⁽¹¹⁾, the overall rate of utilization of the available appropriations for payment fell to 79,7 % (83,1 % in 1986). As regards 'non-compulsory expenditure' (NCE), 8 878,2 Mio ECU of appropriations for payment were used up and 1 349,1 Mio ECU remained unused. The overall rate of utilization of NCE appropriations was therefore 86,4 % in 1987, which was equivalent to the figure for 1986 (see *Table 1.3*).

1.13. In previous annual reports, the Court has pointed out that, in accordance with the rules concerning the annual nature of the budget, appropriations should only be requested and, *a fortiori*, sanctioned by the budgetary authority, if there is a very strong likelihood that they will be used, so as not to mobilize Community budgetary resources without good cause. A series of findings by the Court highlighted the limited utilization of the appropriations allocated to numerous budget headings and called into question the reliability of the Commission's estimates, both when the preliminary draft budget was drawn up and when the latter was examined by the budgetary authority.

1.14. In accordance with the Court's suggestions, the Council, in its comments annexed to the Parliament's recommendation on the discharge to be given to the Commission for the implementation of the 1986 budget ⁽¹²⁾, encouraged the Commission to take its analysis of the causes of under-utilization of appropriations further and to make the figures resulting from its analysis available.

1.15. As the Commission did not comply with this recommendation, the Court attempted to supply the missing figures itself. The analysis it carried out revealed

that the main explanations for the limited use made of some categories of appropriations (see paragraphs 2.11 — 2.14 for the details) may be broken down as follows:

- (a) structural delays, relating to the somewhat unrealistic nature of certain programmes and the sluggishness with which they are implemented;
- (b) the unwieldiness and, in some cases, the complexity of the procedures and mechanisms by which beneficiaries gain access to Community funds;
- (c) the absence of a legal basis;
- (d) problems connected with the winding up of measures which have been concluded, the launching of new programmes or the implementation of new regulations;
- (e) the rather unsatisfactory nature, in some cases, of the Commission's management.

Future expenditure

1.16. The accounts submitted by the Commission show that the definite or highly probable liabilities outstanding at the end of 1987 which will have to be honoured over the next few years amount to 26 484,5 Mio ECU (compared with 22 855,1 Mio ECU in 1986) (see *Tables 1.4 and 1.5*).

1.17. In addition, the Commission calculates that there are also various expenditure commitments and claims on the Community, which it describes as being of doubtful validity, as having been estimated at random and as being scheduled on the basis of unpredictable factors, amounting to about 14 600 Mio ECU (compared with 8 400 ECU in 1986). These items of potential expenditure and claims, for which the Commission does, however, provide precise figures, are also broken down as shown in *Table 1.4*.

1.18. The liabilities and potential expenditure mentioned in the previous two paragraphs represent a total of about 41 000 Mio ECU compared with 31 200 Mio ECU in 1986. The Court must repeat, however, that the final amount and the dates on which these claims will fall due may vary considerably, and the totals have only been calculated by way of illustration and so as to give some idea of the magnitude of these future liabilities, in particular for the purpose of drafting a schedule of forecast disbursements.

1.19. The Court, whilst expressing its satisfaction at the inclusion in the statement of the financial situation as at 31 December 1987 of certain items omitted by the Commission in 1986, nevertheless considers that account

Table 1.3 — Utilization of appropriations for payment in 1987, by compulsory expenditure (CE) and non-compulsory expenditure (NCE)

(1) Public storage (excluding the volume of butter included in the special butter disposal programme and still to be disposed of in 1988) — 3 659,1 Mio ECU; 'mixed' alcohol — 430,9 Mio ECU; debts resulting from the special butter disposal programme — (1988) 1 643,0 Mio ECU.

Table 1.5 — Accumulation of outstanding commitments (differentiated appropriations)*(Mio ECU)*

Movement of appropriations	1985	1986	1987
Accumulated outstanding commitments at the beginning of the financial year	10 346,1	11 805,1	12 458,1
Cancellations and revaluations of commitments from previous years	- 965,2	- 1 298,0	- 1 259,3
Payments against commitments from previous years	- 2 639,1	- 3 860,1	- 3 871,5
Accumulated commitments from previous years outstanding at the end of the financial year	6 741,8	6 647,0	7 327,3
Commitments entered into during the financial year	+ 7 663,5	+ 9 121,2	+ 10 866,1
Payments against commitments for the financial year	- 2 600,2	- 3 310,1	- 3 962,6
Accumulated commitments outstanding at the end of the financial year	11 805,1 (+ 14,1 %)	12 458,1 (+ 5,5 %)	14 230,8 (+ 14,2 %)(¹)
Break-down of accumulated commitments by budget title:			
— Agricultural structures (Title 3)	1 169,3 (+ 1,5 %)	1 259,8 (+ 7,7 %)	1 253,8 (+ 0,5 %)
— Fisheries (Title 4)	125,8 (+ 40,1 %)	187,3 (+ 48,9 %)	255,3 (+ 36,3 %)
— Regional and transport policies (Title 5)	5 336,2 (+ 14,4 %)	6 049,0 (+ 13,4 %)	6 982,2 (+ 15,4 %)
— Social policy (Title 6)	2 850,5 (+ 12,8 %)	2 071,0 (- 27,4 %)	2 182,7 (+ 5,4 %)
— Research, energy, etc. (Title 7)	1 066,7 (+ 34,1 %)	1 278,1 (+ 19,8 %)	1 649,1 (+ 29,0 %)
— Cooperation with developing countries (Title 9)	1 256,6 (+ 12,3 %)	1 612,9 (+ 28,4 %)	1 907,7 (+ 18,3 %)

(¹) The figures in parentheses show the rate of increase as compared with the previous financial year.

- (c) food aid liabilities relating to the implementation of the 1986 and previous programmes, estimated at 75 Mio ECU (compared with 131 Mio ECU in 1986).

1.20. For several years now the revenue and expenditure account has contained a timetable, broken down by budget heading, showing when the payment of outstanding commitments is due. The payments contained in this timetable, not including payment appropriations carried over from 1987 to 1988, represented a total of 13 435,8 Mio ECU at the end of 1987. As regards other liabilities and potential expenditure, the Court invited the Commission in its annual reports on the financial years 1985 and 1986 (¹⁴) 'to try to draw up a timetable to show when they are payable'. In the comments it annexed to its recommendation on the discharge for the financial year 1986, the Council fully supported this request. The Court notes that this timetable has not so far been drawn up, or even envisaged, by the Commission. The budgetary authority is thus unable to assess, even provisionally, when these liabilities will be due over the next few financial years. The Court continues to take the view that this falls seriously short of the objectives of forward management and budgetary discipline called for at the last two European Council meetings, held in Brussels and Fontainebleau.

1.21. But, even with respect to outstanding commitments, it can be seen from **Table 1.6** that the calculations the Commission made when it came to draw up the schedules of payment forecasts were inaccurate and even slapdash. The payments actually made as at 31 December 1987 amounted to only 77,6 % of total forecasts, which were made, for the 1987 financial year, in around April or May 1987, in other words just seven or eight months earlier. Furthermore, there are even bigger discrepancies in the implementation of certain policies. For example, in 1987, the rate of execution of payments against outstanding commitments (1987 instalment) amounted to no more than 47 % for development cooperation policy and 65 % for social policy. The Commission has yet to determine whether the low utilization rate of payment appropriations is due to inaccurate forecasts or whether it is due, for example, to the stricter management of commitments.

1.22. In its annual report on the financial year 1986 (¹⁵), the Court emphasized that, as regards outstanding commitments, 'very considerable amounts remain committed for long periods of time and sometimes for more than 10 years', and pointed to an earlier observation in which it had deplored 'the fact that, at times, the monitoring of outstanding commitments is sometimes

inefficient in respect of the fisheries sector, the European Regional Development Fund (ERDF), and the European Social Fund (ESF). The Court can only repeat that the Commission needs to pay due heed (as it has since 1986 regarding the Social Fund) to the Court's recommend-

ation 'that the improvements called for in the monitoring of outstanding commitments be carried out' ⁽¹⁶⁾ (see **Table 1.7**). Whilst on the same topic, the Court must also draw attention to the delay of several years in the clearance of the food aid accounts (see paragraph 2.65).

Table 1.6 — Outstanding commitments as at 31 December 1986: comparison between payments provided for in 1987 and payments made in 1987

(Mio ECU)

Sector	Payments provided for in 1987 ⁽¹⁾	Payments made in 1987			Payments made as percentage
		Against 1987 appropriations	Against carry-overs from 1986	Total	
	(1)	(2)	(3)	(4) = (2) + (3)	(5) = (4)/(1)
3. Agricultural structures	287,9	250,0	29,5	279,5	97,1
4. Fisheries	66,4	45,8	2,5	48,3	72,7
5. Regional policy	1 613,2	1 503,2	108,1	1 611,3	99,9
6. Social policy	1 510,6	773,8	208,1	981,9	65,0
7. Research, energy, etc.	543,7	442,7	52,4	495,1	91,1
9. Development cooperation	969,6	225,4	230,0	455,4	47,0
Total	4 991,4	3 241,0	630,5	3 871,5	77,6

⁽¹⁾ See 1986 revenue and expenditure account, Volume V, p. 30 (doc. COM(87) 191).

Table 1.7 — Commitments compared with differentiated appropriations outstanding on 31 December 1987⁽¹⁾⁽²⁾

(Mio ECU)

Sector	Financial years during which the commitments were entered into											Total
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
Agricultural structures (Title 3)	(2,2) 2,1	(1,8) 1,0	(9,7) 6,3	(17,5) 13,4	(44,5) 32,7	(73,1) 43,2	(139,1) 74,1	(199,6) 138,8	(369,1) 268,7	(403,2) 312,3		(1 259,8) 1 253,7
Fisheries (Title 4)			(0,2) —	(0,02) —	(0,8) 0,5	(2,7) 2,2	(4,7) 3,5	(23,3) 14,6	(40,9) 23,7	(114,7) 87,9	122,9	(187,3) 255,3
Regional and transport policies (Title 5)	(9,5) 2,6	(15,8) 12,3	(50,8) 41,4	(114,3) 81,1	(254,7) 213,6	(319,7) 274,9	(451,0) 336,6	(927,1) 693,5	(1 367,2) 1 024,2	(2 538,9) 1 452,3	2 849,7	(6 049,0) 6 982,2
Social policy (Title 6)		(3,1) —	(1,1) —	(5,8) 0,02	(23,8) 1,9	(62,3) 0,9	(169,4) 16,7	(135,5) 27,2	(379,9) 54,7	(1 290,1) 278,1	1 803,2	(2 071,0) 2 182,7
Research, energy, etc. (Title 7)			(1,3) 0,9	(11,1) 8,2	(8,4) 5,6	(21,2) 14,4	(64,4) 26,4	(135,4) 66,0	(348,2) 168,5	(688,1) 398,5	960,6	(1 278,1) 1 649,1
Cooperation with developing countries	(3,8) 2,4	(5,1) 4,3	(26,6) 15,9	(40,6) 25,9	(81,8) 60,3	(84,8) 61,0	(105,6) 89,0	(225,3) 183,0	(263,2) 201,6	(776,1) 434,5	829,9	(1 612,9) 1 907,8
Total	(15,5) 7,1	(25,8) 17,6	(89,7) 64,5	(189,3) 128,6	(414,0) 314,6	(563,8) 396,6	(934,2) 546,3	(1 646,2) 1 123,1	(2 768,5) 1 741,4	(5 811,1) 2 963,6	6 927,4	(12 458,1) 14 230,8

⁽¹⁾ Source: Volume V of the 1986 and 1987 revenue and expenditure accounts.

⁽²⁾ The position on 31 December 1986 is given in parentheses.

1.23. In addition, the Court notes that all outstanding commitments are, as a rule, considered to be virtually equivalent to legal commitments and therefore practically unavoidable. In fact, however, this is far from always being the case, given the large degree of discretion allowed the Commission concerning the definition of a commitment. For example, concerning capacity adjustments in the fisheries sector, a global sum of 26,3 Mio ECU was committed on 29 December 1987 on the sole basis of a Commission decision establishing the maximum amount of the Member States' eligible expenditure. Similarly, in the field of shared-cost contracts for energy projects, the sums are committed as soon as a decision is taken by the Commission or the Council, generally several months before the contracts are signed, whereas in other fields the appropriations are not committed by the Commission until the contracts are ready to be signed. The Court must ask the Commission to distinguish in future between commitments that correspond to legal obligations towards third parties and commitments that merely correspond to decisions or general estimates that it has made.

Revision of the Financial Regulation

1.24. The Court must point out here that the revision of the Financial Regulation, which has been in abeyance since 1981, was the subject during the financial year 1987 of a sudden proliferation of proposals for piecemeal, often mutually contradictory, amendments whilst at the same time, however, the work of overall clarification of this fundamental piece of Community legislation could still not be completed. In particular, when drafting its Opinions Nos 4/87, 5/87, 6/87 and 7/87⁽¹⁷⁾, the Court had occasion to express its formal and fundamental objections to such a legislative approach, which is bound to lead to a weakening of the very structure of the edifice of Community law.

1.25. In its 'preliminary observation' preceding the comments accompanying its discharge recommendation for the financial year 1986⁽¹²⁾, the Council stressed that the revision of the Financial Regulation, together with examination of the proposals concerning the common agricultural policy, the structural Funds, bringing revenue into line with expenditure and budgetary discipline, constituted one of those factors that were in accord with the observations that the Court had been making for several financial years and which concerned difficulties that called into question the budget's role as a forecasting and management tool. The Court takes the view that, if the Commission intends to fulfil its responsibilities concerning the implementation of the budget correctly, it must come back to the basic budgetary principles set out in the Treaties and take the requisite steps to improve its ability to control and manage the general budget.

THE IMPLICATIONS OF SHARED MANAGEMENT

The principle of shared management and control

1.26. Most Community budgetary expenditure is managed either by entrusting management responsibilities to authorities or economic agents in the Member States (for example, agricultural guarantee spending or the collection of own resources) or is managed jointly with the Member States (e.g. in the case of structural policies). The consequences of sharing management responsibilities in this way are felt when the time comes to audit them. The checks are carried out by and in the Member States, acting in association with the Commission. Although different in nature, these management procedures have this much in common, that they presuppose, in accordance with Article 5 of the EEC Treaty, active cooperation between the Commission and the Member State authorities concerned, particularly as regards monitoring, exchanges of information, coordination and the follow-up to any results thus obtained. As part of its audit work on the financial year 1987, the Court took a special interest in the way these mechanisms worked, at both Community and national level.

1.27. The audits carried out by the Court in 1987 have yielded certain conclusions which, in the Court's view, will be highly pertinent to the success of the budgetary discipline policy. The Court believes that better budgetary discipline should result not only in capping spending in certain areas, but also, and above all, in an improvement in the quality of the objectives of budgetary expenditure and in the management of Community funds. The observations which follow are therefore concerned with the financial management aspect no less than with considerations of the legality and regularity of the operations audited.

Problems connected with the sharing of responsibilities in the main areas of Community activity

1.28. Whilst again pointing to the failure of some Member States to cooperate with the Commission in certain fields (see paragraphs 3.33, 3.34, 3.82, 4.91, 5.37 and 5.42), the Court must emphasize that the Commission has not always been sufficiently active in the matter of coordination and supervision, in particular as regards the question of ensuring that national controls are carried out on an integrated basis from the Community point of

view (see paragraph 4.85(a)). Serious shortcomings in this area lead not only to a yawning gap between the intentions of the legislator and the practical application of the measures at local level (see paragraph 4.133(a)), but may also have by no means negligible consequences for the Community's finances.

1.29. Among the many and various national authorities involved in the management and safeguarding of Community funds, the customs services are of central importance in the agricultural guarantee sector. It is they who carry out the key controls on export refunds and some MCA payments. In the own resources sector, moreover, they are responsible for the collection of customs duties, agricultural levies and even VAT in some Member States.

1.30. Having examined the work of national customs authorities in all these areas, the Court is obliged to voice serious doubts about the efficiency of the collection of Community revenue and the regularity of some items of expenditure. The Court draws particular attention, in this context, to its findings with regard to the Community Transit system (see paragraphs 3.32 — 3.35) and export refunds (see paragraphs 4.20 — 4.59). In the Court's view, the performance of national customs authorities in the safeguarding and management of Community funds sometimes falls short of the minimum level required under existing rules and is inadequate for achieving the objectives laid down in the Treaties, whilst the Commission has not always even kept itself sufficiently informed concerning the control systems used by the national administrations (see paragraphs 3.8, 3.32 and 4.76 — 4.85 (e)).

1.31. Furthermore, the Commission still does not have complete, up-to-date information on the management and control systems in the Member States for intervention storage (see paragraph 4.78), and the implementation of Council Directive 77/435/EEC of 27 June 1977⁽¹⁸⁾ concerning the control by the Member States of operations under the EAGGF Guarantee Section financing system (see paragraph 4.81(a)). Furthermore, the clearance procedure still does not enable it to make an assessment of the reliability of the Member States' accounts (see paragraph 4.85). In the absence of a clear picture of the national systems used, the Commission is still unable to assess the real extent and nature of frauds perpetrated against the EAGGF Guarantee Section, or how they are broken down between the various agricultural market support mechanisms.

1.32. In the case of the Guidance Section of the EAGGF, it has been observed that numerous programmes submitted by the Member States in the cereals storage sector are based on an increase in production without any account being taken of prospects for stabilizing or reducing Community surpluses, which

would alleviate the burden on the Guarantee Section (see paragraph 5.11(a)). The Commission, for its part, does not give this problem the attention it deserves when approving these programmes, nor does it, in general, make sufficient efforts to secure the information or means of analysis which are vital for the realization of an efficient structural policy through rational investments (see paragraph 5.38). Finally, when it does have reports at hand on the projects that have been implemented, the Commission does not always study or exploit them (see paragraph 5.26). This inadequacy of information and analysis, by both the Commission and the Member States, in respect of the results of completed measures makes it impossible to establish whether the Community aims have been achieved (see paragraph 5.42).

1.33. Moreover, and still apropos the Guidance Section of the EAGGF, there is a contrast, in the implementation of Community aid to speed up agricultural development in Greece, between the excess of Community regulations on the one hand and the limited follow-up to these regulations on the other (see paragraph 5.45). The numerous Community measures undertaken are, moreover, evidence of an absence of an overall view of the matter. For measures on this kind of scale, the necessary monitoring and control procedures ought to be provided for from the beginning, and the question of the eligibility of expenditure should call for a continuous effort by the Commission to provide information and assistance so as to emphasize the objectives of Community action and achieve the most effective use possible of the aid (see paragraphs 5.48 — 5.50).

1.34. As far as the financing of integrated structural measures is concerned, the procedures for managing the various financial instruments have not been modified on a Community-wide basis so as to take account of the imperatives and the objectives of the integrated approach (see paragraph 6.78). In addition, the absence of a suitable accounting framework makes it impossible to establish the actual content and mode of implementation of the initiatives that are financed. In the case of various integrated measures, the Commission, for lack of overall accounting documents and implementation reports, does not carry out any follow-up examination and does not assess the results achieved (see paragraph 6.80).

1.35. With regard to the ERDF, in particular, analysis of the reports to be sent by the Member States on the implementation of the regional development programmes and the utilization of the main completed infrastructure works ought to lead to the development of a system for measuring and assessing the impact of financial investments. An instrument of this kind is indispensable for the purpose of obtaining information on and evaluating the impact of the projects on regional development, and, indirectly, it should also make it possible to improve the procedures used for appraising aid applications, so as more sharply to focus decisions to be taken in the future and increase their effectiveness (see paragraph 6.75).

1.36. The European Social Fund could become a more effective financial instrument, which would be easier to monitor, if, in particular, the criteria for eligibility and priority were defined in clear and precise terms, if explicit instructions on the information to be supplied and the types of control which should accompany the national certification procedures were transmitted to the Member States and, finally, if the Commission's powers of control were fully and systematically utilized and backed by effective sanctions (see paragraph 7.9).

Moreover, the Commission has not drawn from the experience acquired all the necessary lessons for the continuation and development of the operations in the experimental area of the ESF, both with regard to the definition of the experimental field and the financial management or the evaluation of the results (see paragraph 7.55).

1.37. The lack of adequate relevant information thus not only limits the Commission's action (and, consequently, that of the Court and the budgetary authority) in its role as supervisor of the sound use of Community funds, but also hinders the vital *ex post facto* assessment work which should improve, if not optimize, the use of the funds allocated subsequently to new measures of the same kind.

Problems connected with the agency role assigned to the EIB

1.38. The Court has never attempted in any way to audit operations carried out by the European Investment Bank (EIB) from its own resources. The Court has nevertheless been obliged to observe that greater and greater obstacles have been put in the way of the exercise of its audit prerogatives, as defined in the Treaties, over the Community resources used under the Commission's responsibility to finance operations in which the EIB is, in one way or another, involved (EIB management of funds as the Commission's agent, interest subsidies, co-financing, etc.).

1.39. The most substantial, in terms of volume, of the resources that are managed by the EIB are borrowed on the financial markets by the Commission and re-distributed by it, with the help of the EIB. In its annual report on the financial year 1986 ⁽¹⁹⁾, the Court noted that when it 'came to carry out its audit of NCI loan transactions for the financial year 1985 it turned out that the information and documents requested from the Commission and supplied by it were not adequate for the Court to be able to express an opinion as to the extent to which the objectives set out by the Council of Ministers in its Decisions had been achieved'. These repeated observations have led the Court to be especially vigilant as regards the way in which the Commission fulfils its obligations as manager of the funds in question and, consequently, the procedure by which it exercises its own powers of control.

1.40. In a letter to the President of the Court of Auditors dated 29 April 1988, the President of the Commission was concerned to reaffirm that 'the Commission has in no way changed its position of principle regarding the Court of Auditors' powers over operations managed by the EIB' and said that the Commission considered that the wording of Article 10 of Decision 87/182/EEC concerning NCI IV 'could not be interpreted as limiting the rights vested in the Court by the Treaties'. In this letter, as in past replies to the Court's observations on the financial years 1985 ⁽²⁰⁾ and 1986 ⁽²¹⁾, the Commission gave reason for the Court to assume that the specific procedures permitting it to exercise its right of audit would finally be adopted shortly by the parties involved.

1.41. The Court must reiterate that, as its right to audit cannot be challenged on legal grounds and is not in fact challenged by the institutions concerned, its intentions were purely constructive when it suggested that a concerted effort be made to find procedures for exercising its prerogatives, particularly as regards on-the-spot visits, to take account, on the one hand, of the overlap between the Commission's and the EIB's interventions and, on the other, of the EIB's concern not to appear to the outside world to be subject, as such, to the Court's audit. The procedures referred to by the Court in the previous paragraph are inspired by the agreement reached with the Commission on the audits carried out in the field of ECSC lending and borrowing activities, according to which the Court may accompany the Commission when the latter carries out autonomous on-the-spot visits.

1.42. The fact, however, is that the Court was obliged to observe during audit visits in October and November 1987 that the EIB had approached beneficiaries of NCI loans managed by the Bank on behalf of the Community in order to prevent the Court from exercising its audit prerogatives on the spot. The argument put forward was that, as the funds in question were being managed by the EIB as the Commission's agent, the beneficiaries could not permit an audit visit from the Court without having received prior 'audit authority' from the Bank (see paragraphs 11.7 to 11.19).

1.43. The budget appropriations under Chapter 96, 'Cooperation with Mediterranean countries', constitute another category of Community resources managed in part by the EIB. Here again, the Court's right to carry out on-the-spot audits was unexpectedly stymied in 1987. In fact, the Cypriot national authorities — referring explicitly to EIB pressure — refused to allow the Court to make an on-the-spot audit of the share of the projects financed by budgetary appropriations. The Commission, for its part, failed to inform this recipient of Community funds of its obligations as regards auditing under the agreements reached with the Community. It would appear that the reason for this refusal is the fact that the EIB co-finances a proportion of the projects concerned from its own resources (see paragraph 9.6).

1.44. Arguments such as these, when used to oppose the Court's right to carry out an audit, are all the more unacceptable as they could, by extension, lead to large areas of the Community budget being excluded from any audit by the Court and could, thus, seriously call into question the powers conferred by the Treaties on the discharge authority. In addition, the Court must stress that the EIB's attitude in the specific cases that have just been mentioned is all the more incomprehensible as no difficulty of this kind has ever been put in the way of the Court's carrying out audits of operations co-financed and managed by international financial institutions.

1.45. The preceding factors adequately highlight the responsibility which the Commission bears by making it more and more difficult, as it has been doing for several years, for the budgetary and political authorities to obtain the results of audits which would allow them to assess, in full knowledge of the facts, the use made of the very large sums which they authorize each year.

Final observation on shared management

1.46. The Court observes that, in significant areas of Community activity, the Commission — either because it offers no resistance or because the legislation obliges it — is being led increasingly to depart from or even abandon its responsibilities without this being adequately compensated for, until now, by the creation of a central Community system of supervision and control. With regard to operations financed from Community resources in which the EIB is involved to varying extents, the Court is justified in fearing that, due to a lack of watchful action on the part of the Commission, its task as higher external audit authority will gradually become meaningless, if not impossible.

(1) OJ L 86, 30.3.1987.

(2) OJ L 211, 3.8.1987.

(3) OJ L 79, 21.3.1987.

(4) OJ L 211, 3.8.1987, p. 58.

(5) Intergovernmental agreement of 2 and 3 October 1984.

(6) OJ L 356, 31.12.1977.

(7) OJ L 320, 17.11.1983, p. 1.

(8) OJ L 304, 27.10.1987.

(9) OJ L 185, 15.7.1988, p.1.

(10) Opinion No 3/88, OJ C 166, 25.6.1988, p. 7.

(11) According to the classification adopted by the Commission for the purpose of distinguishing compulsory expenditure from non-compulsory expenditure in the revenue and expenditure account; see also Article 203(9) of the EEC Treaty.

(12) Council Doc. 4581/1/88.

(13) OJ L 78, 20.3.1987, p. 9.

(14) — OJ C 321, 15.12.1986, paragraph 1.6.

— OJ C 336, 15.12.1987, paragraph 1.13.

(15) OJ C 336, 15.12.1987, paragraph 2.55.

(16) OJ C 336, 15.12.1987, paragraph 2.57.

(17) — Opinion No 4/87, OJ C 337, 16.12.1987, p. 6.

— Opinion No 5/87, OJ C 337, 16.12.1987, p. 8.

— Opinion No 6/87, OJ C 337, 16.12.1987, p. 10.

— Opinion No 7/87, OJ C 339, 17.12.1987, p. 16.

(18) OJ L 172, 12.7.1977, p. 17.

(19) OJ C 336, 15.12.1987, paragraph 14.26.

(20) OJ C 321, 15.12.1986, reply to paragraphs 73 — 74.

(21) OJ C 336, 15.12.1987, reply to paragraphs 14.27 — 14.30.

CHAPTER 2

Implementation of the budget and accounting matters

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ANALYSIS OF THE IMPLEMENTATION OF THE 1987 GENERAL BUDGET

General data

2.1. In accordance with Article 77 of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities ⁽¹⁾, the Court of Auditors received from the Commission the revenue and expenditure account, the analysis of the financial management and the balance sheet of the European Communities for the financial year 1987 ⁽²⁾. **Tables 2.1** and **2.2** show, respectively, the evolution and utilization in 1987 of the available appropriations, broken down by main areas of Community activity. For a more detailed picture of the year-on-year changes and of the use that was made of these appropriations, reference should be made to Annex III, Tables 6, 7 and 14, of this report. Other financial information regarding the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guarantee) appears in **Table 2.3**, which gives a breakdown of expenditure by budgetary chapter and economic nature, and in **Table 2.4**, which provides a breakdown of the utilization of appropriations in 1987, including the use of transfers between and within chapters of the budget. **Table 2.5** summarizes, by type, the revenue collected during the financial year and indicates how the balance for the year was calculated by the Commission.

Budgetary estimates and management of the appropriations

General assessment of the utilization of the appropriations

2.2. The appropriations for commitment available in 1987 and still unexpended as at 31 December 1987 amounted to 1 312,0 Mio ECU (1 918,9 Mio ECU in 1986), of which 876,8 Mio ECU were cancelled and 435,2 Mio ECU remained available for 1988. These unutilized appropriations for commitment may be broken down as follows:

- (a) 815,4 Mio ECU relating to compulsory expenditure (CE) ⁽³⁾, i.e. 3,0 % of the corresponding appropriations; and
- (b) 496,6 Mio ECU relating to non-compulsory expenditure (NCE) ⁽³⁾, i.e. 3,9 % of the corresponding appropriations.

2.3. The appropriations for payment available in 1987 and still unexpended as at 31 December 1987 amounted to

2 251,4 Mio ECU (compared with 2 074,9 Mio ECU in 1986), of which 890,9 Mio ECU were cancelled and 1 360,5 Mio ECU (consisting of 817,4 Mio ECU of payment appropriations and 543,1 Mio ECU of non-differentiated appropriations) were carried forward to 1988. These unutilized appropriations for payment may be broken down as follows:

- (a) 2 059,6 Mio ECU of appropriations for payment provided for the financial year 1987, of which:
 - (i) 855,7 Mio ECU relating to CE, i.e. 3,2 % of the corresponding appropriations; and
 - (ii) 1 203,9 Mio ECU relating to NCE, i.e. 13,0 % of the corresponding appropriations;
- (b) 191,8 Mio ECU of appropriations for payment carried over from 1986 to 1987, of which:
 - (i) 46,6 Mio ECU relating to CE, i.e. 12,7 % of appropriations carried over as CE appropriations; and
 - (ii) 145,2 Mio ECU relating to NCE, i.e. 17,2 % of appropriations carried over as NCE appropriations.

2.4. The unexpended amounts were reduced by 181,1 Mio ECU of appropriations for commitment and 88,9 Mio ECU of appropriations for payment due to the need to transfer appropriations to absorb the 'negative reserve' included in Chapter 100 of the general budget. In effect, this system means that the budgetary authority is creating expenditure authorizations for a total amount which is in excess of the revenue actually available, and is thus speculating, in practice, on the under-utilization of appropriations. In its Opinion ⁽⁴⁾ of 19 May 1988 on a Commission proposal to amend the Financial Regulation, the Court reaffirmed its fundamental objections to the creation of a negative reserve, which it still considers to be formally incompatible with the Communities' principles of budgetary orthodoxy. On that occasion, the Court invited the budgetary authority to adopt the budget on the basis of realistic and restrictive forecasts which would make the use of such an instrument unnecessary.

2.5. It should also be pointed out that, in the case of a number of the appropriations granted following amendments made to the budget by the European Parliament (which amounted to 421,4 Mio ECU of appropriations for commitment for 116 budget headings, and to 405,3 Mio ECU of appropriations for payment for 119 budget headings), the amount of the appropriations remaining unexpended at the end of the year was higher than the amount of the amendment. **Table 2.6** shows that six budget headings involving an amount of 23,8 Mio ECU of appropriations for commitment and 22 budget headings involving an amount of 165,3 Mio ECU of appropriations for payment are concerned. The amount of the amendment was greater than 1,0 Mio ECU for all these budget headings.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

Table 2.1 — Evolution of the appropriations for commitment and payment in 1987

(Mio ECU)

Sector	Appropriations for commitment						Appropriations for payment				
	Apps. outstanding from 1986	Apps. made available (1)	Initial apps. for the financial year 1987	Amendments made through :		Total apps. available in 1987	Apps. carried over from 1986	Initial apps. for the financial year 1987	Amendments made through :		Total apps. available in 1987
				Suppl. and amending budget No 1	Transfers				Suppl. and amending budget No 1	Transfers	
(1)	(2)	(3)	(4)	(5)	(6) = (1) + ... + (5)	(7)	(8)	(9)	(10)	(11) = (7) + ... + (10)	
1. Administration (all institutions)	—	—	1 757,8	—	+ 2,1	1 759,9	123,6	1 757,8	—	+ 2,1	1 883,5
2. EAGGF-Guarantee	—	—	22 960,8	—	—	22 960,8	3,5	22 960,8	—	—	22 964,3
3. Agricultural structures	54,5	47,6	976,4	—	- 10,7	1 067,8	101,8	896,2	- 53,0	- 13,1	931,9
4. Fisheries	53,9	2,1	193,6	- 15,0	+ 60,7	295,3	42,4	197,3	- 20,0	- 3,3	216,4
5. Regional and transport policies	328,8	304,5	3 565,2	—	- 79,1	4 119,4	242,6	2 738,2	—	- 58,7	2 922,1
6. Social policy	555,5	480,6	2 745,8	—	- 23,8	3 758,1	259,3	2 686,1	—	+ 38,7	2 984,1
7. Research, energy, etc.	145,1	45,9	933,4	—	+ 324,4	1 448,8	112,5	911,4	—	+ 54,5	1 078,4
8. Reimbursements to Member States	—	—	2 816,1	+ 52,9	—	2 869,0	127,8	2 816,1	+ 52,9	—	2 996,8
9. Cooperation with developing countries	259,0	68,0	1 087,7	—	- 7,5	1 407,2	391,7	1 229,9	- 125,0	- 7,5	1 489,1
10. Provisional apps. and contingency reserve	—	—	378,1	—	- 262,9	115,2	—	119,6	—	- 10,4	109,2
Grand total including: non-differentiated apps differentiated apps	1 396,8	948,7	37 414,9	+ 37,9	+ 3,2(2)	39 801,5	1 405,2	36 313,4	- 145,1	+ 2,3(2)	37 575,8
	—	—	28 211,8	+ 37,9	- 13,9	28 235,8	455,3	28 211,8	+ 37,9	- 13,9	28 691,1
	1 396,8	948,7	9 203,1	—	+ 17,1	11 565,7	949,9	8 101,6	- 183,0	+ 16,2	8 884,7

(1) Through cancellations and monetary adjustments to commitments outstanding as at 31 December 1986.

(2) Appropriations corresponding to revenue from services rendered on behalf of outside bodies (Chapter B73 - Research and investment).

(1) Through cancellations and monetary adjustments to commitments outstanding as at 31 December 1986.

(2) Appropriations corresponding to revenue from services rendered on behalf of outside bodies (Chapter B73 - Research and investment).

Table 2.2 — Utilization of appropriations for commitment and payment in 1986 and 1987

Sector	Appropriations for commitment				Appropriations for payment			
	1986		1987		1986		1987	
	Available approps	Commitments entered into	Available approps	Commitments entered into	Available approps (1)	Payments made	Available approps (1)	Payments made
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Administration (all institutions)	1 611,0	1 548,4 (96,1 %)	1 759,9	1 719,0 (97,7 %)	1 715,1	1 522,0 (88,7 %)	1 883,5	1 683,4 (89,4 %)
2. EAGGF-Guarantee	22 135,0	22 119,4 (99,9 %)	22 960,8	22 950,3 (99,9 %)	22 139,4	22 120,0 (99,9 %)	22 964,3	22 951,8 (99,9 %)
3. Agricultural structures	959,4	903,8 (94,2 %)	1 067,8	979,2 (91,7 %)	856,7	766,5 (89,5 %)	931,9	888,6 (95,4 %)
4. Fisheries	271,1	204,7 (75,5 %)	295,3	232,4 (78,7 %)	172,8	115,8 (67,0 %)	216,4	157,8 (72,9 %)
5. Regional and transport policies	3 915,3	3 480,0 (88,9 %)	4 119,4	3 931,9 (95,4 %)	2 769,9	2 585,1 (93,3 %)	2 922,1	2 687,2 (92,0 %)
6. Social policy	3 230,5	2 645,2 (81,9 %)	3 758,1	3 694,2 (98,3 %)	2 899,6	2 419,2 (83,4 %)	2 984,1	2 852,5 (95,6 %)
7. Research, energy, etc.	1 300,8	1 130,5 (86,9 %)	1 448,8	1 336,2 (92,2 %)	980,3	838,4 (85,5 %)	1 078,4	900,3 (83,5 %)
8. Reimbursements to Member States	3 299,8	3 095,4 (93,8 %)	2 869,0	2 380,9 (83,0 %)	3 304,5	2 972,4 (90,0 %)	2 996,8	2 408,9 (80,4 %)
9. Cooperation with developing countries	1 558,2	1 251,9 (80,3 %)	1 407,2	1 265,4 (89,9 %)	1 398,3	853,4 (61,0 %)	1 489,1	793,9 (53,3 %)
10. Provisional approps and contingency reserve	17,1	—	115,2	—	31,1	—	109,2	—
Grand total	38 298,2	36 379,3 (95,0 %)	39 801,5	38 489,5 (96,7 %)	36 267,7	34 192,8 (94,3 %)	37 575,8	35 324,4 (94,0 %)
including: non-differentiated approps	27 581,0	27 258,1 (98,8 %)	28 235,8	27 623,4 (97,8 %)	27 921,7	27 022,7 (96,8 %)	28 691,1	27 490,3 (95,8 %)
differentiated approps	10 717,2	9 121,2 (85,1 %)	11 565,7	10 866,1 (94,0 %)	8 346,0	7 170,1 (85,9 %)	8 884,7	7 834,1 (88,2 %)

(1) Including appropriations carried over from the previous financial year.

Table 2.3 — EAGGF-Guarantee 1987: expenditure by chapter and economic nature

(Mio ECU)

Chapter	Sector	Total	Refunds	First-category interventions					Second-category interventions (public storage)				Total
				Withdrawal	Compensatory aid to sector		Guidance premiums	Private storage	Total	Technical expenses	Financial expenses	Losses	
					Pro-duction	Pro-cessing							
(1)	(2)	(3) = (4) + (10) + (14)	(4)	(5)	(6)	(7)	(8)	(9)	(10) = (5) + ... + (9)	(11)	(12)	(13)	(14) = (11) + (12) + (13)
10	Cereals	4 137,6	3 070,6	—	—105,6	235,5	—	2,9	132,8	213,8	132,4	588,0	934,2
10	Rice	99,0	95,0	—	—	4,0	—	—	4,0	—	—	—	—
11	Sugar	2 035,6	1 515,8	—	—	50,8	—	466,4	517,2	0,8	1,1	0,7	2,6
12	Olive oil	1 139,2	23,2	—	577,6	477,2	—	—	1 054,8	28,6	23,9	8,7	61,2
13	Oil seeds	2 687,4	64,0	—	2 623,8	—	—	—	2 623,8	-0,1	-0,2	-0,1	-0,4
13	Protein plants	587,2	—	—	587,2	—	—	—	587,2	—	—	—	—
14	Textile plants and silkworms	306,4	—	—	306,4	—	—	—	306,4	—	—	—	—
15	Fruit and vegetables	967,1	66,8	418,0	22,4	458,4	—	1,5	900,3	—	—	—	—
16	Wine	800,3	20,4	599,4	—	116,3	—	57,2	772,9	1,5	4,2	1,3	7,0
17	Tobacco	803,6	43,1	—	734,0	—	—	—	734,0	16,3	1,5	8,7	26,5
18	Other sectors	44,5	—	—	44,5	—	—	—	44,5	—	—	—	—
20	Milk and milk products	5 013,0	2 257,9	—	-578,3	2 235,3	71,0	108,0	1 836,0	117,7	291,2	510,2	919,1
21	Beef and veal	2 148,7	877,9	—	201,0	—	19,5	66,3	286,8	129,8	83,1	771,1	984,0
22	Sheepmeat and goatmeat	573,8	—	—	573,7	—	—	0,1	573,8	—	—	—	—
23	Pigmeat	158,6	111,5	—	—	—	—	47,1	47,1	—	—	—	—
24	Eggs and poultrymeat	152,0	152,0	—	—	—	—	—	—	—	—	—	—
25	Products not covered by Annex II	590,2	590,2	—	—	—	—	—	—	—	—	—	—
27, 28	MCAs	654,9	227,0	—	—	427,9	—	—	427,9	—	—	—	—
40	Fisheries	17,4	—	11,4	—	5,9	—	0,1	17,4	—	—	—	—
Total		22 916,5	9 115,4	1 028,8	4 986,7	4 011,3	90,5	749,6	10 866,9	508,4	537,2	1 888,6	2 934,2
29	Other expenditure	51,2	259,4										
Grand total (1)		22 967,7	9 374,8										

Source : Annexes 4, 7 and 8 of the 1987 EAGGF Financial Report (draft).
(1) 22 967,0 Mio ECU of payments plus 0,7 Mio ECU of appropriations automatically carried over; 22 950,3 Mio ECU falling under Titles 1 and 2 of Part B of the general budget plus 17,4 Mio ECU falling under Chapter 40 'Fisheries'.

Source: Annexes 4, 7 and 8 of the 1987 EAGGF Financial Report (draft).

(1) 22 967,0 Mio ECU of payments plus 0,7 Mio ECU of appropriations automatically carried over; 22 950,3 Mio ECU falling under Titles 1 and 2 of Part B of the general budget plus 17,4 Mio ECU falling under Chapter 40 'Fisheries'.

Table 2.4 — EAGGF-Guarantee 1987: use of appropriations and transfers between and within chapters

Chapter	Initial appropriations (Mio ECU)	Transfers						Final appropriations (Mio ECU)	Expenditure	
		Between chapters		Within chapters		Total of positive transfers			Amount (Mio ECU)	in % of initial appropriations
		Amount (Mio ECU)	in % of initial appropriations	Amount (Mio ECU)	in % of initial appropriations	Amount (Mio ECU)	in % of initial appropriations			
(1)	(2)	(3) = (2)/(1)	(4)	(5) = (4)/(1)	(6)	(7) = (6)/(1)	(8) = (1) + (2)	(9)	(10) = (9)/(1)	
10	3 630,0	606,7	16,7	585,7	16,1	1 192,4	32,8	4 236,7	4 236,6	116,7
11	1 653,0	382,6	23,1	40,3	2,4	422,9	25,6	2 035,6	2 035,6	123,1
12	1 165,0	-25,7	-2,2	144,6	12,4	144,6	12,4	1 139,3	1 139,2	97,8
13	2 574,0	700,7	27,2	97,1	3,8	797,8	31,0	3 274,7	3 274,6	127,2
14	460,0	-153,1	-33,3	—	—	—	—	306,9	306,4	66,6
15	967,0	0,2	0,0	137,7	14,2	137,9	14,3	967,2	967,1	100,0
16	1 278,0	-477,7	-37,4	—	—	—	—	800,3	800,3	62,6
17	828,0	-24,4	-2,9	12,0	1,4	12,0	1,4	803,6	803,6	97,1
18	52,0	—	—	1,0	1,9	1,0	1,9	52,0	44,5	85,6
20	5 901,0	-887,3	-15,0	699,9	11,9	699,9	11,9	5 013,7	5 013,0	85,0
21	2 370,0	-221,3	-9,3	390,0	16,5	390,0	16,5	2 148,7	2 148,7	90,7
22	551,0	22,8	4,1	—	—	22,8	4,1	573,8	573,8	104,1
23	234,0	-75,4	-32,2	—	—	—	—	158,6	158,6	67,8
24	141,0	11,0	7,8	20,9	14,8	31,9	22,6	152,0	152,0	107,8
25	560,0	30,3	5,4	—	—	30,3	5,4	590,3	590,2	105,4
27	38,0	-19,9	-52,4	—	—	—	—	18,1	18,0	47,4
28	324,0	312,9	96,6	315,4	97,3	628,3	193,9	636,9	636,9	196,6
29	234,8	-182,4	-77,7	—	—	—	—	52,4	51,2	21,8
Total (1)	22 960,8	+ 2 067,2 - 2 067,2	+ 9,0 - 9,0	+ 2 444,6 - 2 444,6	+ 10,6 - 10,6	+ 4 511,8	19,7	22 960,8	22 950,3	99,9

1) Chapter 40, Fisheries, not included.

(1) Chapter 40, Fisheries, not included.

Table 2.5 — Revenue and balance for the year in 1986 and 1987*(Mio ECU)*

Type of revenue	1986	1987	
	Actual revenue	Budget	Actual revenue
	(1)	(2)	(3)
Customs duties	8 172,9	8 396,7	8 936,5
Agricultural levies	1 175,5	1 763,9	1 626,1
Sugar and isoglucose levies	1 111,5	1 438,6	1 471,7
VAT own resources	22 223,4	23 433,0	23 463,5
Financial contributions	210,1	211,6	210,6
Adjustments to VAT own resources and financial contributions for prior years	377,3	p.m.	— 359,3
Miscellaneous revenue	342,6	624,6	434,2
Previous year's surplus	53,9	—	—
Total revenue	33 667,2	35 868,4	35 783,3
Adjustments:			
Cancellation of the balance of appropriations for payments carried over from previous year	355,6	300,0	189,5
Exchange-rate differences	20,5	—	17,9
Total adjusted revenue	34 043,3	36 168,4	35 990,7
Expenditure charged to the financial year	34 863,2	36 168,4 ⁽¹⁾	35 469,2 ⁽¹⁾
Balance for the year	— 819,9	—	521,5

⁽¹⁾ Including the deficit for the financial year 1986 (819,9 Mio ECU) which was charged to the 1987 budget.

Transfers of appropriations

2.6. In its annual report on the financial year 1986 ⁽⁵⁾ the Court commented on the high volume of transfers made by the Commission in 1986, a sign that the budgetary estimates were based on excessively uncertain forecasts of needs. The 1987 accounts show an even higher volume of transfers:

- (a) 2 851,8 Mio ECU of appropriations for commitment, including 2 067,2 Mio ECU under the EAGGF Guarantee Section, were transferred from chapter to chapter;
- (b) 2 556,0 Mio ECU of appropriations for payment, including 2 067,2 Mio ECU for the EAGGF Guarantee Section, were transferred from chapter to chapter.

The volume of transfers between EAGGF Guarantee Section chapters, which in principle correspond to the various agricultural markets, reached a new high of 2 067,2 Mio ECU in 1987, i.e. 9 % of the initial Guarantee Section budget (see *Table 2.4*).

Payment appropriations carried over

2.7. Article 1(3) of the Financial Regulation lays down that 'payment appropriations shall cover, up to the limit of the amount entered in the budget, expenditure arising from commitments entered into in the current financial year and/or preceding financial years'.

2.8. In its annual reports on the financial years 1985 ⁽⁶⁾ and 1986 ⁽⁷⁾, the Court criticized the practice of using, contrary to the provisions of Article 1(3) of the Financial Regulation, payment appropriations carried over from the previous year to settle new commitments entered into in the current year. During the discharge procedure for the financial years 1985 and 1986, the Council took the same line as the Court.

2.9. *Table 2.7* shows how the payment appropriations carried over from the previous financial year in 1986 and 1987 respectively were used. It is apparent from this table that an amount of 189,6 Mio ECU was used in 1987 for payments against commitments for the current financial year, compared with only 65,4 Mio ECU in 1986.

Table 2.6 — Appropriations which were entered following a Parliamentary amendment on budget headings for which the amount of the appropriations remaining unutilized at the end of the year exceeded the amount of the amendments*(Mio ECU)*

Sector	Budget heading	Heading	Appropriations entered following a Parliamentary amendment	
			for commitment	for payment
<i>Part A</i>				
Special functions	3300	Expenditure on information, publicity and participation in public events	2,9	2,9
	351	Statistical surveys and analyses, processing and dissemination of statistical data	3,0	3,0
<i>Part B</i>				
Fisheries	460	EAGGF (Guidance Section) — Common measures to restructure, modernize and develop the fishing industry and to develop aquaculture		4,2
Regional and transport policies	552	Integrated Mediterranean programmes — Technical assistance	2,0	2,0
Social policy	610	European Social Fund — Specific measures		2,1
	631	Cooperation between universities and industry: training in new technologies (Comett)		1,0
Research, energy, etc.	7301	Horizontal actions — Strengthening the scientific and technical potential of the Community — Research workers' Europe		5,0
	7352	Industrial technologies — Basic technological research and applications of new technologies (Brite)		10,8
	7356	Biotechnology		1,0
	750	Community projects in the field of information technology		1,0
	7750	Completing the internal market		1,5
	7758	Financial aid to the IDIS project		2,0
	7760	Promotion of Community exports to Japan	2,5	
Cooperation with developing countries	923	Food aid in vegetable oil / olive oil		14,9
	924	Food aid (other commodities)		14,5
	925	Food aid transport costs	3,4	3,4
	9280	Exceptional reserve		40,0
	929	Food projects in place of food aid		1,9
	930	Financial and technical cooperation with Latin American and Asian developing countries	10,0	44,0
	931	Promotion of trade relations with Latin American and Asian developing countries		2,0
	933	Cooperation with Latin American and Asian developing countries on energy		1,4
	958	Special programme to combat hunger in the world		3,7
	990	Operations under Commercial and Economic Cooperation Agreements with non-member countries		3,0
Total			23,8	165,3

2.10. However, the Court notes that, out of the 817,4 Mio ECU of payment appropriations which were carried over as at 31 December 1987, 795,0 Mio ECU, or 97,3 %, corresponded to outstanding commitments against the budget headings concerned. The Court also welcomes the more rigorous procedure for carrying over payment appropriations which has been put forward by the Commission in its proposal ⁽⁸⁾, dated 18 March 1988, for the amendment of Article 6(2) of the Financial Regulation.

Analysis of the utilization of appropriations

2.11. Of the six areas which constitute the operating sectors of the budget other than the EAGGF Guarantee Section, three show — whether for CE or NCE — overall rates of utilization of appropriations for payment which are each below 90 %. The areas concerned are fisheries: 72,9 % (of which CE: 73,7 % and NCE: 71,2 %);

Table 2.7 — Utilization of payment appropriations carried over from the previous financial year in 1986 and 1987

<i>(Mio ECU)</i>			
Utilization of appropriations	1986	1987	1988
(1) Appropriations carried over from the previous financial year	749,8	949,9	817,4
(2) Payments	534,9	820,1	
including: payments against commitments outstanding at the end of the previous financial year	469,5	630,5	
payments against commitments specific to the financial year	65,4	189,6	
(3) Appropriations carried over to the next financial year	4,0	2,3	
(4) Cancellations ((1) – (2) – (3))	210,9	127,5	

research, energy, etc.: 83,5 % (NCE only) and cooperation with developing countries: 53,3 % (of which CE: 60,2 % and NCE 51,3 %) — (see **Tables 1.3** and **2.2**). The Court has made a list (see **Table 2.8**) of the budget headings, within the six areas concerned, which were allocated more than 5 Mio ECU of appropriations initially made available in 1987 and for which the rate of utilization was less than 75 %. The Court's list shows, where appropriate, the extent to which the headings in question were amended by the Parliament. The Court notes in particular that:

(a) in the case of 24 budget headings which had been allocated more than 5 Mio ECU of appropriations for commitment, the rate of utilization was below 75 %. These budget headings represent a cumulative total of 1 150,1 Mio ECU, of which 547,9 Mio ECU were not utilized as initially intended, being either transferred, cancelled or carried over;

(b) in the case of 62 budget headings which had been allocated more than 5 Mio ECU of appropriations for payment, the rate of utilization was below 75 %. These budget headings represent a cumulative total of 3 492,4 Mio ECU, of which 1 971,6 Mio ECU were also not utilized as initially intended.

2.12. On the basis of the explanations given in Volume I of the revenue and expenditure account ('Analysis of the financial management'), and of information gathered in the course of its audit work, the Court has attempted to identify the major causes of under-utilization for the budget headings listed. The categories of causes which have been identified are summarized in **Table 2.9**. This table indicates the amounts concerned for each category of cause. In the case of multiple causes, the cause which is the major explanation for the under-utilization of a particular budget heading has been selected.

2.13. The categories of causes of under-utilization are described below, together with illustrative examples:

(a) structural delays, related to the unrealistic nature of certain programmes and the slowness with which they were being implemented, continued to be a major cause of under-utilization. This is especially true for the utilization of payment appropriations. In many cases there is a relatively high rate of utilization of commitment appropriations compared with payment appropriations. The problem can be illustrated by referring to budget heading 510 (European Regional Development Fund (ERDF) — Specific Community measures) where 71,6 Mio ECU of payment appropriations had to be carried over to 1988 because of the delay in the approval of the related programmes;

(b) the unwieldiness and, in some cases, the complexity of the procedures and machinery which enable the recipients to gain access to Community funds also continued to be a cause of under-utilization. Examples for this cause of under-utilization can be found in the operations under Chapter 93 (Cooperation with Latin American and Asian developing countries), where the delay in execution is due, as the Commission mentions in its analysis of the financial management, to administrative difficulties encountered in the beneficiary countries, but also, as the Court underlines in paragraphs 9.56 — 9.65 of this report, to significant deficiencies in the procedures instituted by the Commission itself for payments to beneficiaries. These factors cause considerable delays in the implementation of projects and, as a result, some 145,6 Mio ECU of payment appropriations had to be carried over to 1988;

Table 2.8 — Budget headings with allocations greater than 5 Mio ECU where the rate of utilization of the appropriations for payment (AFP) and/or appropriations for commitment (AFC) initially made available for the financial year 1987 (initial appropriations and appropriations outstanding or carried over from 1986) was lower than 75 %

(Mio ECU)

Sector	Budget heading ⁽¹⁾	Heading	Type of apps.	Apps. initially made available ⁽²⁾	of which apps. entered following a Parliamentary amendment	Rate of utilization of these apps.	Major cause of under-utilization ⁽³⁾
Agricultural structures	300	EAGGF (Guidance) — Projects for the improvement of agricultural structures provided for under Art. 13 of Reg. No 17/64/EEC	AFP AFC	6,3 —		17 —	(b) —
	321	EAGGF (Guidance) — Improvement of the infrastructure in certain Mediterranean regions	AFP AFC	19,7 29,6		96 34	— (a)
	322	EAGGF (Guidance) — Regional measures introduced before 1985	AFP AFC	171,7 142,5		62 49	(a) (a)
	324	EAGGF (Guidance) — Specific development programme for agriculture in Portugal	AFP AFC	37,8 103,0		61 22	(a) (a)
	380 (NDA)	Specific veterinary measures	AFP AFC	6,8 6,0		12 13	(f) (f)
	381 (NDA)	Disease eradication programmes in the Community	AFP AFC	12,3 12,3		0 53	(e) (e)
	382 (NDA)	Inspection in agriculture	AFP AFC	28,7 20,0		31 77	(e) —
	385 (NDA)	Restructuring of agricultural survey systems	AFP AFC	17,0 8,4		33 25	(a) (a)
Fisheries	401 (NDA)	Intervention for fishery products	AFP AFC	27,7 27,7		63 63	(e) (e)
	450	Adjustment of capacity in the fisheries sector	AFP AFC	23,2 40,0		37 22	(d) (d)
	451	Redeployment of capacity in the fisheries sector	AFP AFC	7,2 8,5		51 18	(d) (d)
Regional and transport policies	500	European Regional Development Fund — Operations under the revised ERDF Regulation of 1979	AFP AFC	442,8 4,7		68 21	(d) —
	510	European Regional Development Fund — Specific Community measures	AFP AFC	172,1 162,5		53 79	(a) —
	5411	Community measures in the framework of integrated operations	AFP AFC	13,4 —	0,1	49 —	(a) —
	5412	Experimental projects in the context of integrated operations	AFP AFC	3,3 6,3	2,0 5,0	36 29	— (a)
	5420	Construction, fitting-out and equipment of vocational training centres	AFP AFC	22,7 18,9		8 34	(a) (a)
	5421	Construction, fitting-out and equipment of centres for the treatment and medical, vocational and social rehabilitation of the mentally disabled	AFP AFC	18,7 11,7		8 51	(a) (a)
	550	Mediterranean programmes — Preparation of integrated programmes	AFP AFC	14,0 9,7		87 70	— (a)
	551	Integrated Mediterranean programmes — Additional contribution	AFP AFC	278,1 397,8		37 47	(a) (a)
Social policy	607	Financing of measures proposed before the financial year 1984 (former Chapter 60)	AFP AFC	267,0 —		3 —	(d) —
	608	Financing of measures proposed before the financial year 1984 (former Chapter 61)	AFP AFC	329,9 —		19 —	(d) —
	610	European Social Fund — Specific measures	AFP AFC	84,4 157,6	2,1 2,4	62 62	(d) (d)
	630 (NDA)	Education	AFP AFC	12,0 8,6	0,1 0,1	51 97	(e) —
	631 (NDA)	Cooperation between universities and industry: training in new technologies (Comett)	AFP AFC	13,7 13,0	1,0 1,0	37 100	(b) —
	6330 (NDA)	Programme of exchanges of young workers	AFP AFC	6,3 4,5		66 100	(e) —
	634 (NDA)	Vocational training and guidance activities	AFP AFC	15,6 8,8		69 98	(e) —
	7301	Horizontal actions — Strengthening the scientific and technical potential of the Community — Research workers' Europe	AFP AFC	23,4 19,8	5,0 6,0	60 100	(f) —
Research, energy, etc.	7326	Health and safety — Biology and health protection; Radiation protection	AFP AFC	16,9 15,8		63 89	(e) —
	7342	Advanced communications technologies in Europe (RACE)	AFP AFC	5,5 1,4		68 100	(c) —
	7352	Industrial technologies — Basic technological research and applications of new technologies (Brite)	AFP AFC	32,6 43,2	10,8 12,0	57 100	(c) —
	7382	Services performed at the request of outside bodies and individuals	AFP AFC	5,9 4,3		66 51	(f) —
	750	Community projects in the field of information technology	AFP AFC	8,3 6,9	1,0 2,0	69 100	(f) —
	7702	Community operations for the development of data processing	AFP AFC	8,7 1,3		71 100	(f) —
	7717	Standardization in information technologies	AFP AFC	5,7 6,8		32 100	(d) —

(Continued)

(Mio ECU)

Sector	Budget heading ⁽¹⁾	Heading	Type of apps.	Apps. initially made available ⁽²⁾	of which apps. entered following a Parliamentary amendment	Rate of utilization of these apps.	Major cause of under-utilization ⁽³⁾
	774 (NDA)	Monitoring the application of certain steel industry measures	AFP AFC	26,9 14,8		40 61	(e) (e)
	7750	Completing the internal market	AFP AFC	11,2 9,8	1,5 2,2	38 90	(e) —
	7760	Promotion of Community exports to Japan	AFP AFC	5,2 8,0	1,7 2,5	69 43	(f)(f)
	777	Measures to assist small and medium-sized enterprises	AFP AFC	6,9 6,5	0,5 0,5	55 100	(e) —
Cooperation with developing countries	9200	Food aid in cereals other than rice	AFP AFC	95,9 79,3		67 100	(a) —
	9201	Food aid in rice	AFP AFC	34,0 21,8		29 100	(a) —
	9202	Additional food aid in cereals	AFP AFC	59,8 49,9		36 100	(a) —
	9210	Food aid in milk powder	AFP AFC	122,9 85,4		70 100	(a) —
	9211	Food aid in butteroil	AFP AFC	79,6 43,3		48 100	(a) —
	923	Food aid in vegetable oil / olive oil	AFP AFC	33,1 24,0	14,9 12,0	10 100	(a) —
	924	Food aid (other commodities)	AFP AFC	47,0 30,0	14,5 11,3	27 100	(a) —
	925 (NDA)	Food aid transport costs	AFP AFC	189,9 139,1	3,4 3,4	29 80	(e) —
	9280 (NDA)	Exceptional reserve	AFP AFC	45,8 40,0	40,0 40,0	7 100	(a) —
	9281 (NDA)	Community participation in storage programmes and warning systems	AFP AFC	10,0 10,0	10,0 10,0	6 99	(a) —
	929 (NDA)	Food projects in place of food aid	AFP AFC	6,9 5,4	1,9 1,9	52 100	(a) —
	930	Financial and technical cooperation with Latin American and Asian developing countries	AFP AFC	288,7 361,5	44,0 10,0	53 95	(b) —
	931	Promotion of trade relations with Latin American and Asian developing countries	AFP AFC	12,8 15,3	2,0 6,0	47 95	(b) —
	933	Cooperation with Latin American and Asian developing countries on energy	AFP AFC	6,6 6,6	1,4 2,0	36 67	(b) (b)
	934	Training operations and visits for nationals of Latin American and Asian developing countries	AFP AFC	5,6 8,8	2,1 4,7	54 86	(b) —
	943	Community cofinancing of projects with the International Fund for Agricultural Development (IFAD)	AFP AFC	15,0 20,0	10,0 20,0	67 50	(f)(f)
	950 (NDA)	Aid to disaster victims in developing and other non-member countries	AFP AFC	32,3 31,2		47 71	(e) (e)
	951	Contribution to financing the purchase of food products by non-governmental and international organizations	AFP AFC	6,0 5,5	3,0 5,5	60 71	(f)(f)
	958	Special programme to combat hunger in the world	AFP AFC	15,1 —	3,7 —	48 —	(d) —
	9601	Aid to prepare for the accession of Portugal	AFP AFC	27,4 —		56 —	(a) —
	9602	Specific aid to improve agricultural structures in Portugal	AFP AFC	19,2 —		66 —	(a) —
	9605	Specific aid for the adjustment of fishing capacity in Spain	AFP AFC	14,5 —		0 —	(c) —
	961	Financial cooperation with Malta	AFP AFC	3,0 9,0		0 33	— (a)
	9630	Third Financial Protocol with Turkey	AFP AFC	33,8 —		33 —	(e) —
	9632	Special aid for Turkey	AFP AFC	12,7 29,0		32 34	(c) (c)
	964	Financial cooperation with Cyprus	AFP AFC	8,1 5,8		52 0	(a) (a)
	9650	First and Second Financial Protocols with the southern and eastern Mediterranean countries	AFP AFC	89,4 76,7		65 93	(a) —
	9651	Third Financial Protocol with the southern and eastern Mediterranean countries	AFP AFC	3,0 50,0		0 0	— (c)
	990 (NDA)	Operations under Commercial and Economic Cooperation Agreements with non-member countries	AFP AFC	10,9 8,1	3,0 3,0	37 89	(f)—

⁽¹⁾ NDA = Non-differentiated appropriations.⁽²⁾ Initial budget appropriations, plus the appropriations carried over / outstanding as at 31 December 1986.⁽³⁾ Indicates the category of cause (as described in paragraph 2.13 and *Table 2.9*), which is the major explanation for under-utilization of the appropriations for the budget heading concerned.

Table 2.9 — Analysis of main causes of under-utilization of appropriations for commitment and payment in 1987*(Mio ECU)*

Category of causes of under-utilization	Type of appropriations	Number of budget headings	Appropriations initially made available	Unutilized appropriations
(a) Structural delays related to the unrealistic nature of certain programmes and the slowness with which they are implemented	AFP	22	1 410,6	737,3
	AFC	11	742,7	325,7
(b) The unwieldiness and, in some cases, the extremely complex nature of the procedures and machinery which condition the recipients' access to Community funds	AFP	6	333,7	161,8
	AFC	1	6,6	—
(c) Absence of a legal basis	AFP	4	65,3	38,9
	AFC	2	79,0	69,0
(d) Problems related to the winding-up of actions which were terminated, the starting-up of new programmes or the implementation of new regulations	AFP	8	1 175,3	730,7
	AFC	3	206,1	98,0
(e) Unsatisfactory management in certain cases by Commission departments	AFP	13	420,5	261,7
	AFC	4	86,0	31,0
(f) Miscellaneous or unidentified	AFP	9	90,2	38,4
	AFC	4	39,5	21,4
Total	AFP	62	3 495,6	1 968,8
	AFC	25	1 159,9	545,1

(c) the absence of a legal basis, or the late approval of such a basis, was in several cases the main reason for the low rate of utilization. Annex 1 to Volume I of the accounts lists the cases of under-utilization which are due, according to the Commission, to the absence of a legal basis. The Court has identified a number of other cases which do not appear in the Commission's annex. In this respect the case of budget item 9651 (Third Financial Protocol with the southern and eastern Mediterranean countries) is of significance. Commitment appropriations amounting to 50 Mio ECU and 3,0 Mio ECU of payment appropriations remained unused because the Protocol was only concluded on 21 December 1987;

(d) problems related to the winding-up of measures which had been terminated, the starting-up of new programmes or the implementation of new regulations were a significant cause of under-utilization. An illustration of this cause can be found in the winding-up of the old Social Fund, for which outstanding commitments did not in the end lead to payments because of reductions in the amounts due on completed projects. The initial payment appropriations under budget items 607 and 608, which amounted to 194,3 and 280,0 Mio ECU respectively, were used only to the extent of 8,2 and 61,5 Mio ECU respectively. As a result, transfers of 185,0 and 215,6 Mio ECU respectively were made from these

budget items to others within the same chapter which concern the new Social Fund (1984 Regulations);

(e) the rather unsatisfactory nature of the management which the Commission is able, in some cases, to provide was another important cause of under-utilization of appropriations. For instance, concerning Article 401 (Intervention for fishery products), the Court notes that 10,3 Mio ECU of appropriations were cancelled by the Commission, although expenditure chargeable to the last two months of the financial year 1987 had not yet been charged to the budget. Similarly, the Commission cancelled 10,5 Mio ECU of appropriations under Titles 1 and 2 of Part B of the general budget. This situation, which results from an incorrect application of Council Regulation (EEC) n° 3183/87 of 19 October 1987⁽⁹⁾ introducing special rules for the financing of the common agricultural policy (CAP), led to the charging to the 1988 budget of expenditure which could justifiably have been postponed only if the appropriations available in 1987 were exhausted. Of the total cancellations of EAGGF Guarantee Section appropriations amounting to 20,8 Mio ECU, some 18,5 Mio ECU were cancelled because Member States had cash in hand when the revised rules for the financing of the guarantee section were introduced in November 1987. An example of inadequate management can also be found in the case of the non-differentiated appropriations for which commitments were made

too late to enable the corresponding payments to be executed during the year. Thus, for Article 382 (Inspection in agriculture), most of the 15,4 Mio ECU of commitments were entered into during December 1987, and as a result appropriations for payment amounting to 14,2 Mio ECU were carried forward to 1988;

- (f) in some cases miscellaneous or unidentified causes were responsible for the under-utilization of appropriations.

2.14. For many of the budget items listed in *Table 2.8*, the amount of final appropriations available in 1987 was lower, due to transfers, than the amount initially made available. However, the Court has identified several additional cases (see *Table 2.10*) where the final appropriations were higher than the appropriations initially made available, and for which the utilization of the final appropriations, which exceeded 5,0 Mio ECU, was less than 75 %. This situation usually resulted from transfers of appropriations for some of which, at least, there was apparently no need. These include two cases

representing a cumulative total of 46,6 Mio ECU of appropriations for commitment, of which 29,9 Mio ECU were unexpended, and seven other cases representing a cumulative total of 142,3 Mio ECU of appropriations for payment, of which 61,3 Mio ECU were unexpended. A notable example is the new measure under budget item 4702 (Modernization and development), where payment appropriations of 9,5 Mio ECU (3,3 Mio ECU introduced by a Parliamentary amendment and 6,2 Mio ECU resulting from transfers) were not used in 1987.

System of provisional twelfths

2.15. As has been pointed out in paragraph 1.1, the management of the financial year 1987 was marked by the fact that budgetary implementation took place under the

Table 2.10 — Budget headings with allocations greater than 5 Mio ECU where the rate of utilization of the appropriations for payment (AFP) and/or appropriations for commitment (AFC) finally made available for the financial year 1987 was lower than 75 %

(Mio ECU)

Budget heading (¹)	Description	Type of appropriations	Appropriations initially made available (²)	of which Parliamentary amendments	Transfers, etc.	Final appropriations	Amount remaining unutilized	Rate of utilization of final appropriations
			(1)	(2)	(3)	(4) = (1) + (3)	(5)	(6)
420 (NDA)	Expenditure in connection with agreements on fishing rights	AFP	64,2		11,0	75,2	20,8	72
		AFC	44,1		11,0	55,1	0	100
4702	Modernization and development	AFP	3,3	3,3	6,2	9,5	9,5	0
		AFC	47,3	47,3	51,2	98,5	—	96
632 (NDA)	Cooperation between European universities and mobility of university students and teachers (Erasmus)	AFP	1,2		24,2	25,4	15,2	40
		AFC	1,2		24,2	25,4	14,2	44
6609	Community action for the protection of forests against fire and acid rain	AFP	2,0		3,5	5,5	4,3	21
		AFC	3,5		5,5	9,0	—	90
7325	Health and safety — Medical research	AFP	2,6		5,0	7,6	3,2	58
		AFC	1,1		15,0	16,1	—	76
7330	Research linked to development — Science and technology for development	AFP	11,4		2,5	13,9	4,9	65
		AFC	1,9		19,3	21,2	15,7	25
778 (NDA)	Studies concerning industry and the internal market	AFP	2,3	0,3	2,9	5,2	3,4	35
		AFC	2,0	0,3	2,9	4,9	—	100

(¹) NDA = Non-differentiated appropriations.

(²) Initial budget appropriations and the appropriations carried over/outstanding as at 31 December 1986.

system of provisional twelfths. In its analysis of the financial management, however, the Commission has not given any account of the constraints that this system imposed on it, or of how it conformed to the system's restrictions. The Court has had occasion in the past ⁽¹⁰⁾ to emphasize that the objective of this system requires a restrictive interpretation of the legislation and, also, that the vagueness or the lacunae in the legislation on provisional twelfths should be clarified or remedied as part of the revision of the Financial Regulation.

2.16. Without going once again into the nature of these cases of legislative vagueness or lacunae, or into the variety of practices which the Institutions have devised in an attempt to remedy them, the Court considers that, in the case of the EAGGF Guarantee Section, the Commission has not observed the imperative need for rigorous and far-sighted management that the provisional twelfths system imposes on it. In particular, the funds made available to the Member States by way of advances under the Guarantee Section were already 1 321,7 Mio ECU in excess of the limits imposed by the provisional twelfths system as early as the second month of the financial year. That prompted the Commission to call up the own resources normally made available to it more rapidly than usual, at the rate of one twelfth per month.

OBSERVANCE OF THE FINANCIAL REGULATION

2.17. The principal breaches of the Financial Regulation, besides those already referred to in paragraphs 2.15 — 2.16, which the Court observed in 1987 are described, though not exhaustively, in the following paragraphs.

Observations arising from the audit of salaries at the Council, the Court of Justice and the Economic and Social Committee

2.18. The Court of Auditors' audit of the salaries paid by the Council, the Court of Justice and the Economic and Social Committee (ESC) (see paragraphs 10.4 — 10.23) gave rise to observations concerning the application of the provisions of the Financial Regulation in those three institutions.

Checks carried out by the Financial Controller

2.19. Following the Court's observation in its Report concerning the financial year 1982 ⁽¹¹⁾, the Council's

Financial Controller has improved his verification, on the basis of personal files and other supporting documents, of all the entitlements determined by the staff management department and communicated to the salaries department by means of notes or forms for entry into the salaries data-processing package.

2.20. This improvement in the situation cannot, however, be seen as wholly satisfactory. The Financial Controller is not asked, for example, as part of the recruitment procedure, to approve appointment decisions by verifying, as required by Article 34 of the Financial Regulation, the availability of appropriations and the existence of vacant posts, as well as the aptness of the grades proposed.

2.21. At the Council the Authorizing Officer does not draw up a proposal for commitment, even a provisional one, as required under Article 32 of the Financial Regulation, for any expenditure which comprises remuneration. This practice not only contravenes the Financial Regulation but also prevents the Financial Controller from carrying out the checks prescribed at the level of both commitment of expenditure and authorization of payments, and, furthermore, prevents the Accounting Officer from making the accounting entries provided for in Articles 29 and 30 of the detailed rules for the implementation of the Financial Regulation ⁽¹²⁾.

2.22. Moreover, when salaries are paid, and despite the provisions of Article 43 of the Financial Regulation which stipulate that the accuracy of the sums to be paid must be verified, the Council's Financial Controller:

- (a) approves the payment orders to which the global salary statements are attached without making any checks against personal files, and merely ascertains that the appropriations are available; he considers the monthly reconciliation of total salaries prepared by the salaries department with the previous month's total a sufficient basis for the granting of his approval;
- (b) does not check the inputs into the salaries data-processing package, the data contained in the computer files, or any corrections required as a result of the periodic comparisons between various staff management and salary computer files;
- (c) does not make selective checks during the year on clearly defined components of staff remuneration.

2.23. When approving the payment orders to which the global statements of salaries are attached, the Court of Justice's Financial Controller does not make checks against personal files. Moreover, he does not carry out selective checks over the year on clearly defined

components of staff remuneration. As in the case of the Council, the Court considers that these checks are vital if the obligations arising from Article 43 of the Financial Regulation are to be fully observed.

2.24. The Court of Justice has not appointed an Assistant Financial Controller to assist its Financial Controller, a possibility provided for under Article 19 of the Financial Regulation. The Financial Controller is therefore obliged, whenever he expects to be absent, to delegate authority to someone who is not entitled to receive such a delegation.

2.25. The Financial Controller at the ESC does not, as required by Article 34 of the Financial Regulation, as part of the recruitment procedure, approve decisions of the Appointing Authority, and appointment decisions in particular, by verifying the availability of appropriations and posts and the suitability of the grades adopted. In addition, he approves the payment order to which the global statements of salaries are attached without making any checks against personal files, checks neither inputs to the salaries package nor the data contained in the computer files and does not carry out selective checks during the year on clearly-defined components of remuneration. This, in the Court's opinion, falls short of the obligations incumbent upon him under Article 43 of the Financial Regulation.

2.26. The ESC's Financial Controller is required to approve the personal information sheets detailing the administrative status of staff, the pecuniary rights documents, detailing the granting, withdrawal and modification of financial entitlements, and the global statement of salaries. Supporting documents are attached to neither the personal information sheets nor to the pecuniary rights documents when they are sent for approval, and decisions on recruitments and appointments are not appended to the global statement. Accordingly, approval is granted without the possibility of carrying out a real check.

Segregation of duties

2.27. At the Council, the head of the division which includes the accounts department is an Authorizing Officer, and the head of the salaries unit within the salaries and data-processing department is the Assistant Accounting Officer. This situation contravenes the principle of the segregation of duties, as laid down in Article 17 of the Financial Regulation.

2.28. In its annual report on the financial year 1986⁽¹³⁾, the Court has already observed, in the case of the ESC, that Authorizing Officers have powers of signature in respect of bank accounts, thus contravening the principle

of segregation of duties. As of 31 May 1988, five Authorizing Officers were entitled to sign documents relating to the ESC's bank accounts.

2.29. The Court also noted that two Authorizing Officers at the Council, and two at the Court of Justice, were empowered to sign documents relating to bank accounts.

Absence of internal rules for the implementation of the budget

2.30. Article 4 of the Commission Regulation laying down detailed rules for the implementation of certain provisions of the Financial Regulation imposes on each institution an obligation to draw up its own internal rules, outlining the main responsibilities of Authorizing Officers and managing departments in the implementation of the statement of expenditure and the statement of revenue. This document is supposed to be made available to all the departments involved in the management of the budget, but as of 31 May 1988 no document of this kind had been drawn up by either the Council or the ESC.

Procedures applicable to commitments and payments

Parliament

2.31. With regard to operating expenditure (Title 2 of the budget), 21 decisions to overrule the Financial Controller's refusal to give his approval were taken by the Superior Authority at the Parliament during the financial year 1987. These decisions to overrule the Financial Controller concerned total expenditure of 1,05 Mio ECU. An analysis of the irregularities uncovered by the Financial Controller shows that his main reason for refusing his approval was the fact that expenditure had been committed which did not comply with Article 32 of the Financial Regulation and the fundamental principle of the annual nature of the budget. The expenditure in question concerned everyday aspects of Parliament's administrative management such as the payment of professional fees, costs of organizing meetings, telephone bills etc. Other cases, which were more important from the financial point of view, concerned alterations to premises and the renting of a storehouse in Belgium.

2.32. In its decision to overrule the Financial Controller, the Superior Authority, while recognizing the validity of the Financial Controller's observations, drew particular attention to the utility of the expenditure in question, which had been incurred with a view to an overall saving of money, and, finally, to the fact that the Parliament was in any case obliged to respect financial obligations towards third parties.

2.33. The Court must call upon the Parliament's administration to look carefully into the causes behind the development of this type of infringement over the last two financial years and to take the appropriate steps.

Council

2.34. With regard to items of expenditure other than remuneration, the Court has observed that in 18 cases, involving a total of 2,6 Mio ECU, the relevant commitment proposals were — in contravention of Article 32 of the Financial Regulation — both drawn up by the Authorizing Officers and approved by the Financial Controller *ex post facto*.

Commission

2.35. Examination of the expenditure incurred under Title 9 of the budget uncovered a certain number of shortcomings, in particular:

- (a) six errors (3,0 Mio ECU) in allocating payment orders to the budget involving a total of 50,4 Mio ECU, in the food aid sector;
- (b) 23 payments, amounting to 35,8 Mio ECU, which were charged to Article 930 of the budget, in implementation of a financing agreement which was expected to expire at the end of the financial year 1986;
- (c) three payments, totalling 0,3 Mio ECU, which were made to non-governmental organizations, although the Commission was not in possession of the final report required in this instance under the general conditions of contract.

Economic and Social Committee

2.36. As the Court pointed out in its annual report on the financial year 1986 ⁽¹⁴⁾, the ESC's Accounting Officer keeps the payment accounts and the accounts for extra-budgetary operations, commitments being recorded by the Financial Controller only. This procedure is in contravention of Article 29 of the detailed rules for the implementation of the Financial Regulation, which states that commitment proposals are to be recorded by the institution's accounts department, and of Article 30, under which the accounts must be organized in such a way

as to guarantee that the Financial Controller is able to check that commitments and payments have been accurately recorded.

2.37. An examination by the Court of a sample representing some 66 % by value of expenditure under Title 2 of the ESC budget revealed that, in 36 cases amounting to 0,6 Mio ECU, the expenditure commitments were drawn up after the supplier's invoice had been received and/or after the services commissioned had been rendered. This practice is an infringement of the provisions of the Financial Regulation, particularly Article 32 thereof, which stipulates that all measures which give rise to expenditure must be preceded by a proposal for commitment.

Budget allocation

2.38. At the end of 1987, the Commission discovered 46,7 Mio ECU of excess payments allocated to food aid expenditure. Those relating to the contingency reserve (item B 9280) had, in the main, been charged against the appropriations carried over from 1986. During the additional period, the Authorizing Officer again charged the adjustments to the appropriations for the financial year. Since they had been but little utilized in 1987, the adjustment of 3,9 Mio ECU resulted in net negative expenditure of 2,6 Mio ECU in the 1987 revenue and expenditure account. The adjustment should have been made to the same class of appropriations as that of the initial error, especially given that the very concept of negative expenditure is quite alien to the budgetary principles enshrined in the Financial Regulation. This procedure, furthermore, led to the carrying-over of 44,0 Mio ECU of appropriations at the end of 1987, even though the budgetary authorizations only amounted to 41,4 Mio ECU.

Supporting documents

2.39. The Court's audit revealed various problems concerning the supporting documents for budgetary expenditure operations for the financial year 1987:

- (a) many supporting documents were sent to the Court late; for instance, certain documents concerning the fourth quarter of 1987 did not arrive at the Court until the beginning of June 1988, i.e. too late to be examined under conditions complying with the 15 July deadline laid down in Article 83 of the Financial Regulation. The supporting documents concerning the additional period for food aid are a case in point;

(b) on several occasions, the supporting documents were missing or incomplete. Thus, for example, the supporting documents sent to the Court do not always indicate whether the 'negative payments' recorded for Chapters 92 and 93 are merely an accounting adjustment or whether they correspond to actual cash receipts (recoveries of payments on account, for example). In particular, the reasons behind the cancellations are not apparent from the supporting documents sent to the Court with regard to four cancellations of payment orders totalling 2,2 Mio ECU under Chapter 92 and four similar cancellations totalling 0,9 Mio ECU under Chapter 93.

the full amount originally estimated for the purposes intended and has complied with all relevant conditions. If the beneficiary is unable to supply the necessary evidence to the Commission, for instance when projects are discontinued or broken off, the Commission is entitled to recover the payment on account, in whole or in part, depending on the circumstances. The amounts of such recoveries of payments on account in 1987 are indicated in *Table 2.11*.

Procedures for identifying recoveries and entering payments made on account in the accounts

RECOVERY OF PAYMENTS ON ACCOUNT RELATING TO OPERATING EXPENDITURE

2.40. A large proportion of the expenditure reported in the annual accounts consists of payments on account, which represent a percentage (varying between 40 % and 90 %) of the estimated Community contribution to the total cost of a particular project or programme. This is the case with a considerable proportion of expenditure under the structural Funds, in the energy, research and new technology fields, and in the context of cooperation with developing countries (budget Titles B3 to B7 and B9). Such expenditure becomes definitive only when the Commission is satisfied that the beneficiary has expended

2.41. During 1987 the Commission adopted internal rules relating to the collection of certain debts, including those arising from recoveries of payments on account. These rules reiterate the principle that any measure generating, establishing or amending a debt must be covered by a recovery order, the establishment of which is the responsibility of the Authorizing Officer for the budget headings concerned, and they also define the procedures to be followed subsequently. However, these rules do not provide any guidance on the steps to be taken by Authorizing Officers to ensure that payments on account which should be recovered are first of all identified promptly, in particular by means of a regular and systematic scrutiny of outstanding commitments. But above all, under the present accounting system, the

Table 2.11 — Recoveries of payments on account in 1987

(Mio ECU)

Field of expenditure	Budget headings	Recovery orders established in 1987	Amounts recovered in 1987			
			Recorded in		Deducted from expenditure	Total
			Receipts accounts	Re-use accounts		
EAGGF-Guidance:						
Direct measures	B 30	1,7	—	0,1	—	0,1
Indirect measures	B 33		—	—	1,0	1,0
Fisheries	B 42-46		—	0,2		0,2
Regional Fund	B 50-51		—	—	± 50,0	± 50,0
Social Fund	B 60-61	169,4	111,9			111,9
Social measures	B 63-67			1,2		1,2
Energy	B 70-71	5,9	3,3	2,7		6,0
Research - (indirect action)	B 73	1,8		2,2		2,2
Innovation, industry, etc.	B 75&77			1,5		1,5
Food aid	B 92			0,9		0,9
Cooperation with develop. countries	B 93-99			4,9		4,9
Total			115,2	13,7	± 51,0	± 179,9

Commission does not distinguish between payments according to their legal nature (final payments, advances, instalments paid in settlement, provisional and interim payments made to persons other than the final beneficiary, etc.). It is therefore impossible to estimate the overall value of non-final payments, and all that is known is that they represent a considerable proportion of operational expenditure (see paragraph 2.40). It is likewise impossible to identify individually operations financed on a non-definitive basis, which ought to be monitored systematically by the Commission.

2.42. The inadequacy of the current rules, as described in the preceding paragraph, is illustrated by the following case uncovered by the Court. A project that was being financed from resources under Article 941 of the budget had to be broken off suddenly, at the request of the authorities of the developing country concerned. Although 240 000 ECU had been paid on account and recorded as budgetary expenditure, the Authorizing Officer, six months after the work had been discontinued, was not able to specify what proportion of the payment on account had been used. No recovery order, not even a provisional one, had been drawn up to permit the case to be monitored in the accounts.

2.43. Furthermore, despite the concern expressed by the Financial Controller in his 13th report on the recovery of debts⁽¹⁵⁾, and regular reminders by the Commission department responsible for recoveries (DG XIX), the problem of amounts being paid in to the Commission for which no recovery order has been issued persists. Some 10,1 Mio ECU of revenue (including 2,7 Mio ECU which had already been received in 1986) which were awaiting posting to revenue accounts, because they could not be linked to established recovery orders, were thus included in the consolidated balance sheet at 31 December 1987 (compared to 27,0 Mio ECU at 31 December 1986). This problem is particularly acute in the case of the Social Fund, apparently due to difficulties in handling the increasing volume of recoveries.

Using recoveries of payments on account to finance new expenditure

2.44. Article 3 of the Financial Regulation lays down the principle that revenue and expenditure 'shall be entered in full in the budget and in the accounts without any adjustment against each other'. However, by way of derogation from this article, Article 22 provides for the possibility that certain revenue may be deducted from expenditure or 're-used' to finance other payments in the same field of expenditure. Furthermore, Article 6(6) provides that EAGGF Guidance Section appropriations may be used, by way of exception, to finance projects for which they were not initially committed, under the

conditions laid down in Council Regulation (EEC) No 3171/75 of 3 December 1975⁽¹⁶⁾. This provision has been applied by analogy to subsequent EAGGF Guidance Section regulations. Although not referred to in the Financial Regulation, similar provisions are laid down in Council Regulation (EEC) No 1787/84 of 19 June 1984 relating to the ERDF⁽¹⁷⁾.

2.45. The Commission has been inconsistent in its application of these re-use provisions. For instance, large sums representing payments on account which have been recovered in the Social Fund field in the last few years have been treated as budgetary revenue, without any recourse to re-use. As a result, considerable amounts of appropriations were not ultimately used as originally intended by the budgetary authorities. In the research field, re-use has been the general rule, whereas in the energy field this was never the case prior to 1987.

2.46. The Commission has not yet established criteria for the re-use of payments on account which have been recovered. Such criteria, which ought to be included in the Financial Regulation, should clearly indicate, in particular, whether payments on account which were completely valid on the basis of the known circumstances, and which years later turn out to be wholly or partly recoverable, really constitute 'amounts paid in error', within the meaning of Article 22 of the Financial Regulation.

Presentation in the annual accounts of recoveries of payments on account and their re-use to finance new expenditure

2.47. Recoveries paid in to the Commission and not intended for re-use are immediately credited to the budgetary accounts for miscellaneous revenue. These accounts are presented separately from the accounts showing budgetary expenditure, but do not indicate the amounts related to each field of expenditure concerned. Some 115,2 Mio ECU were entered in this way in 1987 (see **Table 2.11**).

2.48. Where the recoveries are intended for re-use the revenue is recorded under a special extra-budgetary account (13,7 Mio ECU in 1987). A schedule showing the extent to which this revenue was re-used during the year is presented by the Commission as an annex to Volume II of the annual accounts. When new commitments and payments are entered, so that the funds corresponding to the amounts received can be re-used, they are recorded separately from normal budgetary operations and are not included in the tables in Volume II of the annual accounts which show the total budgetary expenditure. If the

amounts recovered have not been re-used within two financial years, they are transferred to a revenue account and entered as such in the annual accounts.

2.49. In fields of expenditure, such as the ERDF and indirect EAGGF Guidance Section measures, recoveries of payments on account relating to certain projects are made by deducting them from payments in respect of other projects (some 51,0 Mio ECU in 1987). The amounts recovered are deducted from expenditure and recorded as 'negative payments' in the detailed accounts of budgetary expenditure, reducing the total payments for the budget headings concerned and thereby in effect releasing appropriations for payment to be used to finance other projects. The annual accounts of budgetary expenditure reflect only the net amounts recorded, thereby understating the total expenditure for the year. Furthermore, there is no accounting control over amounts which are awaiting recovery by deduction from payments yet to be made.

Recovery procedures

2.50. Once recovery orders have been established by the Authorizing Officer and entered in the accounting system, the task of ensuring that the recoveries are effected by the pre-determined due date is the responsibility of a specific section at DG XIX. The work of this section is carried out in close consultation with the Authorizing Officers whenever deadlines are not met, and in particular when legal action is being considered.

2.51. Whilst recognizing the complex nature of the debt collection task, there are grounds for considering that the system as a whole is not yet operating wholly satisfactorily, as the following examples show:

- (a) the recovery orders outstanding at 31 December 1987 for recoveries of monies transferred in the Social Fund field (139,5 Mio ECU) included a significant proportion ($\pm 30\%$) which had been overdue for more than 12 months;
- (b) the recovery orders outstanding at 31 December 1987 for the EAGGF-Guidance sector (15 cases amounting to some 2,7 Mio ECU) included four cases totalling 0,9 Mio ECU which can be considered irrecoverable. In one of these cases, involving 188 690 ECU, the debtor had gone into liquidation and the receiver did not recognize the Commission's claim because its declaration arrived too late. In two other cases, involving 709 000 ECU, the Commission was still sending out recovery orders at a time when the debtor was already in liquidation. For one of these,

the recovery order had been established in 1985, although the debtor in question had been in liquidation since 1978.

Final observation on the recovery of payments on account

2.52. Recovering payments on account is an important feature of the Commission's management of contributions to multiannual projects and programmes. The number and value of recoveries will increase in direct proportion to the strictness with which the Commission monitors outstanding commitments and related payments on account, as has been demonstrated in recent years in the Social Fund field.

2.53. The Court urges the Commission to adapt its system and accounting procedures so that it will be able:

- (a) to grasp immediately the legal nature of the payments made, so that it is possible at any time to distinguish between final and non-final payments, whether on an individual or block basis;
- (b) to identify recoverable payments on account promptly, and to establish and record recovery orders immediately;
- (c) to re-use amounts recovered to finance new operations in the same field of expenditure in accordance with clearly defined criteria;
- (d) to present in the annual accounts all amounts recovered and the use thereof to finance new expenditure, accurately reflecting the aggregate amounts of revenue, reconstituted appropriations and expenditure;
- (e) to effect recovery within the specified time limits;
- (f) to have access to adequate information concerning debtors whose financial situation is precarious.

2.54. The Court wishes to point out that its recommendation in paragraph 2.53(d) above confirms its Opinion⁽¹⁸⁾ of 27 May 1981 on the Commission's proposal for an amendment to the Financial Regulation.

The Commission's proposal, which was subsequently amended and presented in 1984 ⁽¹⁹⁾, does not reflect the Court's view on this point and has not yet been the subject of a Council decision. Furthermore, the Court wishes to emphasize that this recommendation could be put into practice, without necessarily modifying the Financial Regulation, by adopting *mutatis mutandis* the presentation customarily used in the budgetary expenditure accounts to reflect commitment appropriations made available by the cancellation of commitments from previous years.

THE COMMUNITY GENERAL ACCOUNTS AND BALANCE SHEET

Cash deficit at the Parliament

2.55. The amount of 4,1 Mio BFR ($\pm 0,1$ Mio ECU), which was already included in the Parliament's balance sheet at 31 December 1982 as deferred expenditure under the heading 'Cash deficit' ⁽²⁰⁾, is still to be seen on the assets side of the balance sheet at 31 December 1987. In this connection, the Court of Auditors must refer the reader to its reports on previous financial years ⁽²¹⁾.

Revenue to be recovered

2.56. The outstanding revenue to be recovered, which amounted to 126,5 Mio ECU at 31 December 1987 (as against 96,2 Mio at the end of 1986), can be broken down as follows:

Maturity	(Mio ECU)	
	Amount of claims	
	31.12.1987	31.12.1986
1982	0,1	0,1
1983	0,1	3,3
1984	0,3	0,6
1985	2,1	3,5
Subtotal A	2,6	7,5
1986	37,3	88,7
Subtotal B	37,3	88,7
first half of 1987	31,0	
3rd quarter of 1987	32,2	
October	5,1	
November	7,6	
December	10,7	
Subtotal C	86,6	—
Total	126,5	96,2

To these amounts in the balance sheet must be added claims deriving from fines imposed by the Commission (72,1 Mio ECU at 31 December 1987, as against 70,9 Mio at the end of 1986, the degree of dueeness of which depends on decisions yet to be taken by the Court of Justice) ⁽²²⁾ and claims concerning own resources and the related interest on payment defaults (15,7 Mio ECU at 31 December 1987 — of which 7,9 Mio relating to 1984 — as against 70,1 Mio at the end of 1986). The Court must therefore ask the Commission to redouble its efforts to recover claims which have fallen due.

Recoverable taxes and duties

2.57. In its annual report on the financial year 1984 ⁽²³⁾, the Court observed that the invoicing of value-added tax (VAT) to the Communities was governed by rules that varied from Member State to Member State. The Court recommended that the Commission should negotiate with the Member States with a view to harmonizing and simplifying the procedures in respect of exemption from VAT, the ideal being to arrive at a situation where all the Member States accepted invoicing net of VAT, as is the case for three of them (Belgium, Italy, Luxembourg). In its replies to the annual reports on the financial years 1985 and 1986, the Commission stated ⁽²⁴⁾ that in June 1986 it had written to the Member States which did not operate the direct system of VAT exemption to request that talks be started to obtain an amendment to the implementing provisions for Article 3 of the Protocol on the Privileges and Immunities of the European Communities ⁽²⁵⁾. The Commission is still obliged to make *ex post facto* repayment requests for seven Member States. Furthermore, the approaches made to the two new Member States (Spain and Portugal) have not so far enabled detailed rules for the application of the Protocol to be agreed.

2.58. Following the observations made by the Court in its annual reports since 1983, the Commission undertook ⁽²⁶⁾ to set up an accounting procedure for recoverable VAT. A new procedure was in fact set up in 1987. This new procedure still does not seem to be satisfactory, since:

- (a) at the end of May 1988 the repayment requests relating to 1987 had been drawn up for only four Member States (i.e. 1,8 Mio ECU out of 2,7 Mio ECU);
- (b) the amount of 3,2 Mio ECU of 'Recoverable taxes and duties' shown in the balance sheet at 31 December 1987 does not reflect the true amount of the Commission's claim on the Member States because the recoverable taxes for 1986 for Spain and Portugal are still not known.

2.59. In conclusion, the Commission, despite its undoubted efforts, is still not able to establish VAT claims at the end of the financial year in a reliable manner. The Court therefore once again urges the Commission to introduce a proper accounting procedure for these recoverable taxes and duties.

Advances to staff

2.60. At 31 December 1987, advances to members of staff totalled 5,4 Mio ECU (including 2,5 Mio ECU of advances against salaries included in 'Expenditure to be charged'), as against 4,5 Mio ECU at the end of 1986. In its last three reports (on the financial years 1984, 1985 and 1986) ⁽²⁷⁾, the Court criticized the fact that the computer print-outs supporting these accounts still showed a high number of creditor items, apparently corresponding to sums owed by the institution to staff, whereas staff advances are sums owed by the staff to the Commission. The situation had not improved very much by 31 December 1987, because on that date, solely for advances against travel and subsistence expenses, there were 255 creditor balances as against 150 on this same item at the end of 1986. The Court must therefore once again strongly urge the Commission to make the necessary checks of these print-outs and review the procedures for recording and monitoring these accounts.

Reliability and completeness of the EAGGF-Guarantee accounts

2.61. Apart from the omission, mentioned in paragraph 1.2, of expenditure corresponding to two months, i.e. a total of 4 546,6 Mio ECU, the accounts submitted to the discharge authority are incomplete in another respect. These accounts are based entirely on the Member States' monthly declarations, so that the revenue and expenditure figures they contain are checked by neither the national audit bodies nor the Commission and are likely to be substantially amended at a later stage: firstly, when the Member States submit their revised annual accounts for the expenditure of the financial year for clearance and, secondly, after the clearance procedure proper. According to current procedures, these adjustments must be shown in the subsequent accounts. This practice means that at the end of the year there are items of assets and liabilities which are perhaps sizeable and which are not included in the Community balance sheet.

2.62. The volume of these adjustments cannot be assessed beforehand, but the Court notes that the net balance in 1987 of items of this kind arising from previous financial years amounted to some 208,2 Mio ECU. The

Court of Auditors considers that a note to the effect that adjustments of this kind will probably be made should be entered in the financial statements. Moreover, the adjustments ought to be entered in the accounts as soon as they are notified. The adjustments that result from the presentation by the Member States of the rectified EAGGF-Guarantee accounts — which are generally known prior to the discharge decision relating to the accounts in question — fall in particular into this category.

2.63. In 1987, as in 1986, there were considerable delays before the Commission entered the EAGGF-Guarantee operations in the budgetary accounts, and no monthly expenditure was booked within the two months specified by Article 97 of the Financial Regulation. In addition, in order to cope with the problem of the shortage of appropriations, frequent use was made in 1987 of the suspense account system, to such an extent that by the end of October a sum of 3 862,0 Mio ECU was entered on such accounts, pending transfers of appropriations enabling this amount to be charged to the budget. As in previous years, this situation was corrected by means of a batch transfer after the end of the financial year, which the budgetary authorities could only treat as a formality.

2.64. The Commission is unable to reconcile the EAGGF-Guarantee balances declared as held by three Member States at November 1987 with its own records (one Member State shows a balance 47 000 ECU higher than in the Commission's records and the two other Member States show balances totalling 212 000 ECU less than in the Commission's records).

Clearance of food-aid accounts

2.65. In the case of food-aid expenditure disbursed on its behalf by the Member States, the Commission makes monthly payments of advances to the Member States, and subsequently takes clearance decisions concerning the annual accounts. The most recent decisions taken by the Commission relate to the financial year 1979. Consequently, unlike in the case of the Guarantee Section of the EAGGF, the Commission has not taken steps to catch up on the delays in the closure of these accounts. This situation conflicts with Commission Regulation (EEC) No 249/77 of 2 February 1977 ⁽²⁸⁾, Article 8 of which stipulates that the clearance of the accounts must be decided on, in principle, before the end of the following year. Failure to comply with this provision has resulted in about 3 000 Mio ECU of food-aid expenditure being provisionally charged to the Commission's accounts for the financial years 1980 to 1986. The delays of several years in the clearance of the accounts, carried out on the basis of expenditure effected in national currencies by the

Member States, entail the risk of financial consequences for the general budget of the Communities, which is expressed in ECU, because of the effect of changes in the exchange rates, as shown by the case of the expenditure effected by Denmark in 1979. An amount of 9,2 Mio ECU of food aid was not accepted by the Commission when the accounts were cleared in 1985. In the meantime, Denmark had deducted this sum from its declared expenditure for the financial year 1980, and the Commission decided to enter this amount in the balance sheet, pending the clearance of the food-aid accounts for the financial year 1980. In the absence of any clearance decisions, either of a general nature or specific to this case, the amount still appears on the balance sheet at 31 December 1987 under the heading 'Expenditure to be charged'. If this amount had been charged on, for example, 31 December 1987, it would have resulted in an extra cost to the general budget of 139 000 ECU, because of changes in the Danish krone/ECU exchange rate since 1985. The Court considers that these very lengthy delays in the clearance of the accounts should be eliminated as soon as possible.

Monitoring of bank accounts

2.66. For the purposes of administering Community funds, the Commission has required its banks to make the transfers between its various bank accounts with 'same-day value dating', i.e. the date on which the amount is credited to the account at the transferee bank must be the same as the date on which the amount is debited from the account at the transferor bank. However, a test carried out on 57 inter-bank transfers made in December 1987 with an average value of 12 Mio ECU revealed that in 16 cases the operations had not been carried out with 'same-day value' and that this had resulted in a total loss of 32 days of value. This test, which was restricted to one month, shows that the Commission should provide itself with the resources necessary to carry out such a check, which would very soon prove profitable.

2.67. Following requests made by the Court for confirmation of the Commission's bank balances, the banks' replies (or confirmations) were sent simultaneously to DG XIX at the Commission and to the Court. Nevertheless, some replies from the banks were incomplete or contained errors, especially as regards authorized signatories. The Commission should have made sure that all the incorrect replies were rectified by its banks.

2.68. The Commission has opened a very large number of bank accounts, for use by DG XIX (which held 119 bank accounts at 31 December 1987) and also DG XVIII (credit and investments). In addition to these accounts, there are the bank accounts used by the Commission's research centres (at Ispra, Geel, Karlsruhe and Petten), by the external delegations and by the information offices, the accounts used by one Directorate-General or another for a particular programme, the accounts held by the staff

shops and restaurants, and, lastly, the banks accounts opened by the other institutions. There is no constantly updated list of all these accounts. DG XIX, which has the task of coordinating the management of all Community funds, should draw up such a list. The institutions would thus be able to form a more accurate picture of the volume of business handled by each bank and curb the proliferation of bank accounts, which the Court has already criticized⁽²⁹⁾. This would facilitate the sound management of Community funds.

Miscellaneous revenue to be credited

2.69. The item 'Miscellaneous revenue to be credited' amounted to 14,1 Mio ECU at 31 December 1987, as against 27 Mio ECU at the end of 1986. In fact, this item should amount to no more than 10,1 Mio ECU, the disparity being due to two booking errors. Lastly, of this 10,1 Mio ECU, 2,7 Mio ECU corresponds to established revenue for 1986. The monitoring of operations carried out on this account should therefore be improved.

Loans granted to Mediterranean countries

2.70. The loans granted to Mediterranean countries are shown in a table in Volume II of the revenue and expenditure account⁽³⁰⁾. This table has many errors of presentation (omission of some signed, and even some disbursed, loans, inclusion of an operation which had not been concluded, etc.). The net result of the errors is that the total volume of loans signed, which, according to the Commission's table, amounts to 494,6 Mio ECU, is only 472,1 Mio ECU, whilst the total volume of loans disbursed, which, according to the same table, amounts to 392,1 Mio ECU, ought to be shown as only 388,7 Mio ECU. The Commission could have made the information presented more reliable and more consistent, in particular by reconciling it with the data regularly received from the EIB, which would, for example, have avoided the over-estimation by 10,8 Mio ECU of the amount outstanding on the loans granted to Turkey.

Exchange-rate differences

2.71. During the financial year 1987, the Court carried out an audit enquiry into the origins of, and the controls and accounting methods applicable to, exchange-rate differences in all the Community institutions (144,8 Mio ECU of exchange-rate gains and 126,9 Mio ECU of exchange-rate losses for the financial year, i.e. 17,9 Mio ECU of net exchange-rate profit for the consolidated balance sheet of the institutions at 31 December 1987). It

transpired that efforts need to be made to harmonize practices in all the institutions so as to cut down the reasons for and the disparities in the origin and handling of these differences. A detailed check by the Financial Controller of these differences was also seen to be

necessary. The conclusions of this enquiry have been sent to the institutions concerned. Two of them have already replied by sending their comments to the Court, and the Commission has held an exchange of views for Accounting Officers on this subject.

(1) OJ L 356, 31.12.1977.

(2) Doc. COM(88) 212 — 216.

(3) According to the classification adopted by the Commission to distinguish between 'compulsory' and 'non-compulsory' expenditure in the revenue and expenditure account.

(4) Opinion No 1/88, OJ C 166, 25.6.1988, p. 3.

(5) OJ C 336, 15.12.1987, paragraph 2.5.

(6) OJ C 321, 15.12.1986, paragraph 7.10(b).

(7) OJ C 336, 15.12.1987, paragraphs 2.7 — 2.10.

(8) Doc. COM(88) 148 final of 18.3.1988.

(9) OJ L 304, 27.10.1987, p. 1.

(10) Annual report on the financial year 1985, OJ C 321, 15.12.1986, paragraphs 1.30 — 1.35.

(11) OJ C 357, 31.12.1983, paragraphs 11.37 — 11.38.

(12) OJ L 360, 19.12.1986.

(13) OJ C 336, 15.12.1987, paragraph 2.47.

(14) OJ C 336, 15.12.1987, paragraph 2.33.

(15) Thirteenth report (dated 20 July 1987) of the Financial Controller to the Commission — Article 24(3) of the Financial Regulation of 21 December 1977.

(16) OJ L 315, 5.12.1975.

(17) OJ L 169, 28.6.1984.

(18) OJ C 232, 11.9.1981.

(19) Doc. COM(84) 123 final of 9.3.1984.

(20) Annual report on the financial year 1982, OJ C 357, 31.12.1983, paragraph 2.9.

(21) — Special report on the Members' cash office of the European Parliament, OJ C 202, 5.8.1982.

— Annual report on the financial year 1982, OJ C 357, 31.12.1983, paragraph 2.9.

— Annual report on the financial year 1983, OJ C 348, 31.12.1984, paragraphs 2.5 — 2.7.

— Annual report on the financial year 1984, OJ C 326, 16.12.1985, paragraph 2.2.

— Annual report on the financial year 1985, OJ C 321, 15.12.1986, paragraphs 2.2 — 2.3.

— Annual report on the financial year 1986, OJ C 336, 15.12.1987, paragraph 3.2.

(22) Annual report on the financial year 1986, OJ C 336, 15.12.1987, paragraph 3.4.

(23) OJ C 326, 16.12.1985, paragraph 2.4.

(24) — OJ C 321, 15.12.1986, replies, paragraph 2.10.

— OJ C 336, 15.12.1987, replies, paragraph 3.5.

(25) Treaties establishing the European Communities, 1978 edition, Vol. I, p. 856.

(26) — Annual report on the financial year 1983, OJ C 348, 31.12.1984, replies, paragraphs 2.18 — 2.19.

— Annual report on the financial year 1984, OJ C 326, 16.12.1985, replies, paragraphs 2.3 — 2.4.

— Annual report on the financial year 1985, OJ C 321, 15.12.1986, replies, paragraph 2.9.

(27) — OJ C 326, 16.12.1985, paragraphs 2.8 — 2.9.

— OJ C 321, 15.12.1986, paragraph 2.12.

— OJ C 336, 15.12.1987, paragraph 3.6.

(28) OJ L 34, 5.2.1977, p. 21.

(29) Annual report on the financial year 1984, OJ C 326, 16.12.1985, paragraph 2.39.

(30) Doc. COM(88) 213 EN final.

CHAPTER 3

Revenue

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GENERAL INTRODUCTION

3.1. The revenue under consideration in this chapter is part of the own resources allocated to the Communities by Council Decision 85/257/EEC, Euratom of 7 May 1985 ⁽¹⁾.

3.2. Trade and related customs operations have an important bearing on Community own resources. Because of the current pressures to liberalize trade both within the Community and internationally the Court of Auditors considered it desirable to examine certain Community revenue systems affected by trade. It chose three distinct areas for this purpose — the Community transit system (road), the system for imposing and bringing to account of anti-dumping duties and the area of agricultural levies on cereals imports which are the most important agricultural levies in terms of revenue. The Court also refers to the non-establishment of customs duties in Spain and Portugal in January and February 1986 and to certain unilateral exemptions from customs duties by Member States.

THE COMMUNITY TRANSIT SYSTEM — ROAD

Introduction

3.3. The Community Transit System (CTS) is the means whereby a high proportion of the Community's external trade physically enters and traverses its territory with minimal customs formalities at internal frontiers prior to entry to a customs regime at destination — usually, entry to free circulation on payment of any import charges due. Consequently, a considerable part of Community own resources accruing from customs duties and agricultural levies (the total of which amounted to 10 500 Mio ECU approximately, in 1987) is at stake in movements performed under the system. The CTS is also the means whereby Community goods can be moved in intra-Community trade and on exportation to third countries.

3.4. Two versions of the standard transit procedure are used, the 'external' and the 'internal'. An external ('T1') transit procedure is defined as that applying to goods not in free circulation in the Community and to agricultural goods which, although in free circulation, are intended for exportation to third countries with the benefit of export refunds. An internal ('T2') transit procedure is defined as that applying to Community goods. A transit declaration is presented and registered at the office where the movement commences (office of departure). In practice, these offices are customs offices or offices under the control of the customs authorities. The standard declaration comprises the following copies of prescribed transit forms:

- (a) Copy No 1 — for retention by the office of departure;
- (b) Copy No 2 — for retention by the office of destination;
- (c) Copy No 3 — for return as a receipt for the goods by the office of destination to the office of departure;
- (d) Copy No 4 — statistical copy.

Following the entry into force of the single administrative document from 1 January 1988, the corresponding copies to be used in CTS are new copies Nos 1,4,5 and 7.

3.5. Copies Nos 2, 3 and 4 (from 1 January 1988, copies Nos 4, 5, and 7) accompany the goods to the office of destination where the transit movement ends. Security is required to be given to cover the duties and taxes at risk, although since 1 July 1988 this requirement has been waived for Community goods under certain conditions. On arrival of the goods at the office of destination, they are normally entered to a customs regime and any duties and other import charges are accounted for. The movement is discharged when the office of departure obtains a satisfactory receipt for the goods from the office of destination.

3.6. In its annual report for the financial year 1979 ⁽²⁾, the Court commented on the operation of the CTS. In view of its importance for the control of traditional own resources, the deficiencies found during the 1979 audit and developments in customs procedures since then, the Court decided to re-examine its operation. Moreover, in the light of the plan to achieve completion of the internal market by the year 1992, it was considered an opportune

⁽¹⁾ The footnotes are listed together at the end of the chapter.

time to re-evaluate the functioning of the system at a time when clearer distinctions in the transit treatment of Community and non-Community goods are becoming increasingly necessary. The purpose of the audit was to assess the impact of the system's application on the security and proper collection of traditional own resources. During the present audit, discussions were held with the Commission and visits were made to four Member States — the FR of Germany, Italy, the Netherlands and the United Kingdom. References to 'the Committee' are to be taken as references to the 'Committee on the Movement of Goods' (see paragraph 3.30).

3.7. The basic Community legislation is contained in Council Regulation (EEC) No 222/77 of 13 December 1976⁽³⁾ with implementing and simplifying provisions contained in Commission Regulation (EEC) No 1062/87 of 27 March 1987⁽⁴⁾.

Impact of the system on Community own resources

3.8. The impact of the system on own resources is centred on two key features:

- (a) following the introduction of goods into the Community's territory, the system provides the basis for revenue security and control within the Community's external frontier until the goods are entered to a customs regime and the import charges are accounted for;
- (b) the system provides documentary means of readily indicating the status of goods both during the transit movement and when the customs entry declaration is subsequently presented. This status is signalled by use of a 'T1' endorsement on transit declarations for external movements and 'T2' on declarations for internal movements. It follows that the irregular or incorrect use of 'T2' transit documentation for goods not in free circulation in the Community and for Community agricultural products declared for export under EAGGF export refund schemes would have serious consequences for own resources or export refund expenditure.

3.9. In its previous comments, the Court pointed to the 'dilemma' inherent in the CTS in performing its twin

functions of trade facilitation and revenue security. The findings of the present audit indicate that, following the ever-increasing demands to liberalize trade and simplify procedures, the solution of this dilemma appears to favour trade facilitation at the expense of revenue security.

3.10. The Court recognizes the central role played by the CTS in removing intra-Community trade barriers. However, the Court is also concerned that due attention should be given to the other considerations of revenue security and control. As the internal transit procedure, involving national revenues only, becomes increasingly liberalized, it is necessary to ensure that the external procedure (covering T1 goods) is properly distinguished as regards control treatment from the former in order to maintain a sound system of protection for Community own resources. The present findings indicate that there is considerable room for improvement before this level of protection can be considered satisfactory.

Observations arising from audit of the system as operated in Member States

Security of transit documentation

3.11. In its 1979 annual report, the Court criticized the use of a common form of transit documentation for external (T1) and internal (T2) operations. The Commission defended such usage, referring to the demands of document-printing techniques and international trading practices. In re-examining this question, it is clear that a return to separate documentation is not now feasible, particularly with the introduction of the Single Administrative Document. Nevertheless, the present practice whereby declarants simply enter the 'T1' or 'T2' designation on transit declarations contains no safeguard against subsequent irregular alteration of 'T1' declarations, particularly in the case of copy No 2 of the transit declaration (from 1 January 1988, copy No 4). This copy of the transit declaration used at the office of destination to indicate the Community or non-Community status of the goods on their entry for free circulation (or home use) is normally filed with the import declaration. In the absence of suspicion, no *ex post facto* verification check on its validity is performed. Therefore, security against the simple alteration of a 'T1' to a 'T2' declaration is seriously deficient. Appropriate measures are urgently needed to remedy this situation.

3.12. Although the CTS is a well established system, instances were found in Italy and the Netherlands of the inappropriate use of CT documentation for the purposes of facilitating national schemes and procedures (e.g. the use of T1 documentation to cover exportation of certain non-agricultural Community goods). These practices had the effect of delaying discharge of movements and of creating the risk of confusion between T1 and T2 movements in inquiry procedures.

Sealing of means of transportation on departure

3.13. Article 18(1) of the basic Regulation stipulates, as a first principle, that identification of goods shall be ensured by sealing. Article 18(4), however, provides that sealing may be dispensed with if the goods are sufficiently described on the declaration so as to make them 'readily identifiable'. The rules of the Committee provide that, 'in principle', certain listed goods of a tax-sensitive nature (mainly, exciseable goods) and agricultural products subject to import levies or export refunds must be sealed. Therefore, most non-Community goods subject to customs duties are, unless insufficiently described, not required to be sealed. This standard of description for identification purposes is, in practice, rarely taken into consideration in customs offices and containers are normally sealed by customs only on traders' request or because of the exceptional sensitivity of the goods or the route to be used (e.g. via Austria/Switzerland). Moreover, the extent of sealing was found to vary greatly between Member States, depending on the importance attached to it by the customs administrations.

3.14. This is one aspect of the CTS where a clear distinction should be made between T1 and T2 goods. Sealing the means of transport should provide a level of security appropriate to moving T1 goods within Community territory, particularly in combating illegal abstraction and substitution of goods en route. Regard must be had to the risks for own resources inherent in present working practices. Attention is drawn to the rule, adopted by the Committee, whereby the office of destination 'must only carry out a detailed examination in case of doubt'. In the absence of sealing, it is difficult to see how this rule can be safely and sensibly applied. Save in circumstances of exceptional practical difficulties, all

T1 goods moved by road under the CTS should be sealed where the means of transport is suitable for sealing.

Control of goods at offices of destination

3.15. Essentially, the role of the office of destination is to verify that the goods have arrived intact, to record this fact on a copy of the transit declaration (i.e. the 'satisfactory' certificate) and to return it as a receipt for the goods to the office of departure. The Court found that destination controls performed at the customs offices on the road frontiers visited were reasonably satisfactory. On the other hand, customs controls performed at the seaports visited were indirect and not as effective. In the ports of Rotterdam and Felixstowe undue reliance was found to be placed on documents issued by shipping and stevedoring companies as proof of arrival of containers under transit control. In addition, the Court has observed that, in a high proportion of certificates given by customs on the receipt copy referred to, the name of the certifying official was illegible. It is considered that a suitable means of identifying the official concerned (i.e. by use of a special stamp) should be introduced on a Community-wide basis to support official signatures on transit documentation.

Treatment of irregularities discovered at office of destination

3.16. If irregularities are discovered on arrival of the goods at the office of destination, that office notifies the office of departure by means of an endorsement on the receipt copy. The Court found this notification system unsatisfactory since it simply indicated the difference between the advised and received quantities but did not inform the office of departure as to what action (if any) was required and what action the office of destination was, or intended, pursuing. Many cases were inspected where this lack of coordination had resulted in mis-directed and unnecessary inquiries. It is noted that the revised arrangements of the Committee, effective from 1 January 1988, do provide for more useful and comprehensive information to be given by offices of destination in such cases.

Delays in discharging transit operations

3.17. A transit operation is discharged when the office of departure, after receiving a satisfactory certificate of receipt for the operation on the receipt copy returned by the office of destination, compares this copy with the copy it has retained (copy No 1) and, if in agreement, discharges the operation. No formal notice of discharge is sent to the principal or guarantor; only non-discharged cases are required to be notified. One of the essential requirements of the system, therefore, is the prompt return of the receipt copy of the transit declaration by the office of destination. The Committee have interpreted this standard, for practical purposes, as a 10-day maximum delay following production of the consignment. The Court found that frequently the return of this receipt is unreasonably delayed. It has seen many cases where receipt copies have been dispatched from offices of destination as late as 3-4 months following the time of receipt of the documents and the goods. This initial delay in dispatch is considerably lengthened by the further delays occurring in routing the papers through central transit offices. The enlargement of the Community Transit 'territory' with the addition of new participating countries in recent years has added to the practical difficulties in communication between offices. However, most delays stem from poor performance in customs offices in failing to observe the need for the prompt return of the receipt. As a result, offices of departure are often involved in needless inquiries with principals and other parties in efforts to trace consignments. It has also been observed that offices of departure have ceased to observe the time-limit for initiating an inquiry procedure for non-discharged operations, precisely because they are aware of the usual time-lags experienced in obtaining receipts from certain destinations (Greece being a notable example). Thus, laxity in observing reasonable standards in one area of CTS control has affected performance in another. This has led to a deterioration in overall control standards.

Inquiry procedures

3.18. In cases where the office of departure does not obtain a receipt for the transaction, it is obliged to initiate and pursue an inquiry procedure within certain time-limits adopted by the Committee. The Court found that, in almost all offices of departure visited, the time-limits for issuing and pursuing inquiries were, to varying degrees, not being respected. While in all non-discharged files examined an inquiry had been initiated, the most

serious aspect of these cases lay in the considerable time-lags that characterized the procedure beyond the early stages. Serious problems have developed in this area, due to:

- (a) the failure of offices to reply reasonably promptly to inquiry correspondence;
- (b) the increasing number of 'non-reply' cases where offices of destination (mainly) fail to send any response to inquiries or to reminders;
- (c) the inexperience and junior ranking of the customs staff dealing directly with inquiries — in many offices visited, these officials were found to be isolated from customs management;
- (d) the failure to distinguish between cases as far as revenue materiality and risks are concerned — in general, all non-discharged cases are given equal treatment;
- (e) the poor standard of record-keeping and filing in inquiry offices;
- (f) the absence of proper management supervision and guidance — this has led to the backlog of cases that has arisen in many offices due, notably, to a lack of decision-making in assessing cases and to the failure to report cases promptly to the competent authorities where necessary;
- (g) delays resulting from the need to have documents translated.

3.19. Another feature of the inquiry procedure noted was the absence of confirmation in offices of departure that appropriate action for the recovery of revenues was being taken by the responsible authorities. Many instances were found where offices of departure had notified the competent authorities to proceed to recover charges under the relevant legal provision (Article 36 of the basic Regulation) but where, after a lengthy interval, it had received no further communication. In some offices visited, it was noted that the office of departure had sent the inquiry documents directly to the office of destination and not to the competent authorities (central administration) as required under the Committee's Rules. Moreover, operations were treated as discharged in offices of departure on receipt of an advice from other offices to the effect that recovery action was being undertaken by them. The discharge of operations, without confirmation of the actual recovery of the charges due, is not a secure method of discharging transit operations. The Committee needs to give clear directions to the customs administrations on the responsibility which lies solely with the office of departure to discharge

transit operations and on the dangers of releasing guarantees before confirmation of recovery of charges has been received.

3.20. These defects in pursuing inquiries also create risks for recovery of charges under the comprehensive form of guarantee designed to cover all transit movements carried out by a principal over a certain period. According to the terms of the guarantor's undertaking, a guarantor can limit his liability to the amount of the guarantee limit in cases where successive claims may be made against it for movements commencing within 30 days following a first claim and may even cancel his guarantee under such circumstances on expiry of this 30-day period. The practice of continuing to accept a guarantee for current operations, where potential liabilities still stand for earlier non-discharged operations, may not provide adequate security for the revenues at risk.

Recovery of own resources in non-discharged cases

3.21. The CTS provides that the Member State in which an offence or irregularity has occurred is responsible for collection of all charges. If a transit movement remains unaccounted for, a prescribed procedure ensues with the objective of identifying the Member State responsible for recovery. This is done with the aid of the 'Transit Advice Notes' handed over at offices of transit located at internal frontier crossings and as indicated on the transit declaration. In the case of irregularities, these 'Notes' serve to identify the Member State which the goods or means of transport entered but from which they did not depart. The procedure is supervised by the office of departure. The necessity for this procedure stems from the fact that Member States represent the only competent authorities for the collection of the revenues involved. In addition, national taxes may be levied on importation in trade between Member States. Considering the delays occurring in the pursuit of inquiries, the Court is not satisfied that the present recovery procedure serves the Communities' own resources well. As Community revenue, customs duties and levies are charged on a uniform basis on imports, regardless of the place within the Community's customs territory where the goods are entered for free circulation or the customs debt arises. There is a good case, therefore, for having a more direct and prompt method of recovering own resources, particularly since the basic Regulation provides for a 'principal' who is responsible for observance of the CTS rules. The Commission have stated that to institute a separate recovery procedure for own resources would lead to complications, particularly where guarantors are

concerned. However, the Court considers that there is still an urgent need to improve procedures in order to provide an efficient method for the recovery of overdue own resources.

3.22. The significance of the number of movements remaining non-discharged in relation to total registered movements has not been possible to gauge in quantitative terms. The records maintained in the offices visited did not give this data in an accessible form and on-the-spot analysis of this ratio could not be performed. Nevertheless, the Court is able to make the general observation that the number of operations remaining undischarged after about six months from the date of registration forms a low percentage of total operations but that the number of these cases can be considerable in absolute terms. In the important offices visited, hundreds of operations were found to be long-outstanding. For instance, the Netherlands authorities stated that, as on 31 December 1986, recovery proceedings were in course against 1 093 principals, 39 guarantors and 18 other parties with own resources of 3 Mio ECU (approximately) involved. The Italian authorities estimate that, on the basis of incomplete data, 4 456 irregularities involving actual loss of revenue had been detected in that State since 1 January 1984. As on 31 May 1987, 645 recovery claims remained unresolved in Italy involving own resources conservatively estimated at 2,4 Mio ECU.

Post-clearance verification procedures

3.23. With a view to detecting and preventing fraud, provision has been made for verifying the authenticity and correctness of endorsements made by customs on transit documentation. Verification requests are required to be sent from offices of departure to offices of destination and vice versa in respect of documents selected both for specific reasons and on a random sampling basis. In all offices of departure visited, it was found that this scheme had fallen seriously into disuse. In practice, virtually the only requests issued were found to relate to documents on which the transit stamp or the official's signature were missing and which would have had to be returned in any event. In addition, in most of the offices visited, no proper records were maintained of the cases selected or the outcome of the check. As operated, the scheme goes little way towards fulfilling its intended objective.

Maintenance of transit registers and other records

3.24. The standard of transit registers maintained in the offices visited was generally very poor. A real lack of attention was evident in record-keeping for all transit purposes — departures, arrivals and inquiries. In many instances, registers which had been originally printed and designed for local purposes had been crudely adapted as a transit record, leading to unsatisfactory results. In addition, many informal insecure practices had developed as a substitute for proper record-keeping. The recording of cases remaining non-discharged was particularly neglected — in most offices of departure visited, no separate register for inquiry cases was maintained and reference to individual files was necessary to obtain details of progress in the inquiry procedure. In offices of destination visited, the separate registration of incoming inquiry notices was not usually performed resulting in severe difficulties in assessing the overall office situation as regards outstanding items. For example in the Italian offices visited, incoming inquiries are recorded in the general office 'protocol' (correspondence register) from which it is not possible to obtain an overview of either the volume or progress of inquiries received. In the United Kingdom offices of departure registers were found to be particularly poor both as regards format and maintenance. In other offices, operations were shown as 'cancelled' in the departure register with a line simply drawn through the items concerned — no authenticating signature or certificate indicating the reason for cancellation was recorded. There exists a clear and urgent need to improve standards in this area.

Management control

3.25. The Court is reasonably satisfied that the operational deficiencies in the system can be attributed in large measure to the absence of sound management control and supervision. Mention has been made of the low standards found in office records that, with proper management, would not have been tolerated. In many offices visited, it was clear that the managers interviewed were not sufficiently aware of the practical difficulties and shortcomings existing in the offices. In particular, the absence of management direction was very evident in the office sections responsible for handling transit inquiries and recovering charges. The Court is of the view that customs management needs to afford higher priority to the Community transit aspect of their responsibilities and to bring a greater awareness of the revenue risks involved in operating the system to bear on their approach to control and supervision.

Central Transit offices

3.26. These offices are provided for in Article 11 of Regulation (EEC) No 1062/87. The responsibility for establishing and operating these offices lies with Member States. The Committee promoted the concept of central offices in Member States as a means of speeding up the transmission of transit documentation and, generally, of improving procedures. National administrations are in favour of their development for the added reason of reducing postal costs. The volume of documents passing through the busier offices visited is extremely heavy and continues to increase. In Arnhem (Netherlands), 4,5 million copies No 3 (receipt copies) and almost 220 000 Control Copies T No 5 (5) were handled in the year 1986. In Hamm (FR of Germany) a daily average of 47 595 copies No 3 was handled in 1986, with postal dispatches to 883 offices. In Southend (United Kingdom), about 11 000 copies No 3 are handled daily.

3.27. The standard of packaging transit documents for return to central offices is unacceptably low, impairing the security of the system. Urgent steps need to be taken to improve standards in this area.

3.28. Central offices are intended to overcome the chaos that would inevitably result from the transmission of documents via individual offices of departure and destination. However, with the increase in volume of documentation, the larger central offices have come under increasing pressure to cope with the volume of receipts and to avoid backlogs. The Court is of the view that, in certain circumstances, the transmission of documents via central offices should be used more selectively. It has noted that delays can occur in discharging transit operations where documents involving a large volume of regular transit traffic between busy offices on major routes are returned via central offices. These delays could be avoided if direct office-to-office transmission was introduced in these circumstances.

Accounting for transit operations by means of computer-based techniques

3.29. The only satisfactory solution to the problems caused by the volume of documents moving between central offices is to develop a 'paperless' system substituting on-line EDP links between offices for the physical transmission of documents. This would also improve the security of the system. In 1981, the Community Transit Committee set up a 'Pilot Study Group' to deal with the question of computerizing transit

procedures. The Group produced detailed proposals on a basic feasible network. However, other computer projects in the 'Customs Union' field have taken priority over this transit project. Considering the present unsatisfactory situation regarding the discharge of transit operations and the clear opportunity for systems improvement offered by EDP techniques, it is essential for the reform of the CTS that a computerized network be introduced with the least possible delay particularly having regard to the completion of the internal market in 1992.

Role of the Committee on the Movement of Goods

3.30. Originally, the 'Committee on Community Transit', set up under Article 55 of the basic Regulation, was responsible for the examination of questions and the delivery of opinions relating to the application of that Regulation. From 1 January 1988, these responsibilities were transferred to the 'Committee on the Movement of Goods' set up under Council Regulation (EEC) No 678/85 of 18 February 1985 governing the simplification of formalities in trade in goods within the Community (6). It consists of representatives of the Member States with a representative of the Commission as chairman.

3.31. The Committee adopts opinions on draft measures for the application of the basic Regulation. It also adopts numerous 'administrative' arrangements, conclusions and interpretations, concerning technical and practical aspects of the operation of the CTS. These administrative arrangements should constitute a code of common rules and guidelines for implementation by the competent national authorities. Thus, they are of considerable importance in advancing uniform application of CTS provisions and in protecting the system against abuse. The Court found that serious delays have arisen in having proposals for administrative arrangements adopted by the Committee and concludes that an urgent need exists to improve the Committee's decision-making procedures in this area.

Conclusion

3.32. The Court's findings during the present examination of the Community Transit System confirm the criticisms contained in its 1979 annual report. With the addition of three new Member States and the six EFTA countries (from 1 January 1988), the lines of communication and control become longer and more difficult to

manage. The CTS is now a very liberal and facilitative system from trade and transportation viewpoints. Whereas this may be an appropriate objective in relation to Community goods moved under the system, stricter control criteria are necessary for revenue considerations where goods, not in free circulation and subject to tariff measures, are concerned. There is a continuing failure to differentiate adequately between the control treatment of internal and external transit operations. This results in unacceptably high risks and, possibly, losses being borne by the own resources of the Community.

3.33. Major problems for the security of the regime are being created by the non-observance of the operational rules by Member States. A generally low standard exists in customs offices in implementing simple rules, particularly as regards the return of T-documents and responding to transit inquiries and other communications. There is an urgent need to have these defects remedied. The delays and difficulties being experienced in operating the inquiry and recovery procedures give rise to serious concern about the ability of the system to protect customs duties and levies constituting Community own resources. In this context, the Court draws attention to the obligation on Member States to provide an adequate standard of service in return for the reimbursement of 10 % of the duties and levies collected.

3.34. Important central offices visited were found to be experiencing severe difficulties in coping with the volume of T-documents under transmission. With the extension of the CTS into all EFTA countries and the consequent increase in CT traffic, the number of CT documents in circulation will, almost certainly, remain at a high level even though a decrease in internal transit movements is expected after 1992. There is an immediate need for national administrations to devote more resources to the operation of central offices. In the longer term, however, the only satisfactory solution to the problem of accounting for, and discharging, transit movements lies in designing a computer-based network between offices and removing the need for the physical transmission of documents.

3.35. The role of the Committee is crucial to the achievement of an effective uniform system. It is at Committee level that the commitment to improve performance must first be found and action initiated. Given the many weaknesses noted by the Court during its audit, it is clear that the Committee needs to address itself with urgency to the many problems which require to be resolved.

SYSTEM FOR IMPOSING AND BRINGING TO ACCOUNT OF ANTI-DUMPING DUTIES

Introduction

3.36. The anti-dumping law of the European Community which is laid down in Council Regulation (EEC) No 2176/84 of 23 July 1984⁽⁷⁾ provides for the imposition of anti-dumping duties as one of the instruments for combating dumped and subsidized imports, which have shown a strong growth in the 1980s.

3.37. Anti-dumping duties increase the price level of dumped or subsidized goods upon importation into the Community to the normal price of the goods in question which is often the price of the goods on the domestic market of the country of exportation. These duties also constitute own resources as mentioned in Article 2 of Decision 85/257/EEC, Euratom.

3.38. The amount of Community revenue involved in anti-dumping duties is not known as there is no requirement for anti-dumping duties to be mentioned separately in the monthly statements of traditional own resources furnished to the Commission by the Member States. It is considered by the Commission to be of marginal financial importance. The significance of anti-dumping duties for the Communities' own resources can only be illustrated, therefore, by referring to cases where either the Commission or the Member States have carried out investigations to determine values of trade flows or total amounts of anti-dumping duties involved in importations of specific goods. The Court was told by the Commission for example, that the total value of photocopiers imported into the Community during the reference period of the anti-dumping investigation was 1 000 Mio ECU, the reference period being January to July 1985 inclusive. The Commission also informed the Court that the amount of anti-dumping duties evaded in a case of importation of Kraftliner paper into the Community was reported by France, the FR of Germany and the United Kingdom to be approximately 8,5 Mio ECU.

3.39. The Court has examined the Community system for imposing and bringing to account anti-dumping duties with particular emphasis on:

- (a) the immediate, harmonious and universal implementation of provisional and definitive duties regulations;

- (b) the prompt establishment and making available of own resources accruing from anti-dumping duties;

- (c) clarity in national and Community accounts so that the revenue return from anti-dumping duties may be known and recorded.

The Court also examined the system with a view to assessing whether any deficiencies existed in the system which would have a negative impact on expected revenue from this source. For this purpose, on-the-spot missions were carried out in Belgium, Greece, Spain and the United Kingdom and discussions were held with the Commission's services.

The Community procedures relating to anti-dumping duties

The anti-dumping procedure

3.40. The imposition of anti-dumping duties is the ultimate phase of an anti-dumping procedure which starts with the submission to the Commission of a written complaint by the Community industry affected by the imports allegedly dumped. Throughout the anti-dumping procedure, consultation with the Member States takes place, within an advisory committee. Such consultations can be initiated either by a Member State or the Commission.

The anti-dumping investigation

3.41. If the complaint is considered to contain sufficient evidence to justify an investigation the Commission decides to initiate a formal proceeding which is published in the Official Journal. The anti-dumping investigation is carried out by the Commission and covers the evidence of dumping and the injury resulting therefrom. Once the extent to which dumping has occurred has been established as well as the injury caused to the Community industry, and, if the interests of the Community call for the imposition of definitive duties, they are imposed by a Council Regulation on a proposal from the Commission unless undertakings (see paragraph 3.43) have been offered by the exporter(s) in question and have been accepted. The duties apply for five years from the date on which they entered into force, or were last modified or confirmed. They apply throughout the entire Community

and are collected by Member States at the moment the goods in question are entered into free circulation in the Community.

Observations arising from audit of system for imposing and bringing to account of anti-dumping duties

Provisional anti-dumping duties

3.42. Provisional anti-dumping duties can be imposed before the anti-dumping investigation is concluded where preliminary examination shows that dumping exists and that there is sufficient evidence of injury caused and the interests of the Community call for intervention to prevent further injury. They are imposed by Commission Regulation for a maximum period of four months which may be extended for a further period of two months by the Council on a proposal from the Commission. In such cases, instead of the duty having to be paid, release of the products concerned into free circulation in the Community is conditional upon the provision of a security for the amount of the provisional duty. The Council subsequently decides on the definitive collection or release of provisional anti-dumping duties.

Undertakings

3.43. Undertakings constitute an alternative to the imposition of anti-dumping duties. They are formal commitments by an exporter to abstain from dumping or to ensure that exports to the Community do not injure Community producers of the product concerned. They may be accepted during the course of an investigation on the basis of a formal decision of the Commission.

Community provisions in respect of the collection of anti-dumping duties

3.44. The main provisions in Community legislation concerning the application and the subsequent establishment as own resources of anti-dumping duties are contained in Regulation (EEC) No 2176/84 and Council Regulation (EEC, Euratom, ECSC) No 2891/77 of 19 December 1977⁽⁸⁾. In addition the imposition of anti-dumping duties is provided for by means of specific regulations.

Anti-dumping duties in the Community accounts

3.45. Only Spain accounts separately for anti-dumping duties. In all other Member States the anti-dumping duties collected are not accounted for separately (see paragraph 3.38) and are included in the amount under the revenue heading 'customs duties' in the monthly statements of traditional own resources furnished by Member States to the Commission.

3.46. Consequently, there is no clarity in the national accounts or the Community accounts in respect of own resources which have accrued from anti-dumping duties. The lack of clear accounting data also means that the financial consequences of the Community's anti-dumping policy cannot be identified. The Court recommends that anti-dumping duties should be separately accounted for by all Member States.

Dissemination of decisions to impose provisional anti-dumping duties

3.47. Provisional anti-dumping duties are imposed by Commission Regulation and published in the Official Journal. They enter into force normally the day following publication. The time taken for the distribution of Official Journals to the customs offices in Member States can be significant. Consequently, once the date of publication of the Regulation is known the Commission sends a telex to the Member States containing the full text of the Regulations to enable them to initiate prompt action prior to the receipt of the relevant Official Journal.

3.48. In Belgium, Greece and Spain the Court noted that either no use at all was made of this telex or the information contained therein was transmitted to and subsequently received by Customs in charge of the collection of the duties, after delays of from two to four weeks. In Spain duties are not applied until the Official Journal is received at customs houses. This generally takes at least two weeks from the date of publication. In Greece copies of the telexes were received at the local customs offices visited three or four weeks after the date of entry into force of the duties. These different practices

between Member States do not assure the prompt application of these duties and, even, create the risk of non-application.

Establishment as own resources of provisional anti-dumping duties

3.49. Provisional anti-dumping duties are secured by cash deposits or bankers guarantees pending the duties having become definitively due on the basis of a Council Decision. Meanwhile, the goods will have been released for free circulation and the basic rule, that establishment should take place within at most 14 days after the goods in question are released for free circulation (Article 3(2) of Council Directive 78/453/EEC of 22 May 1978 ⁽⁹⁾ concerning deferred payment) cannot be applied.

3.50. In regard to provisional anti-dumping duties there is no Community law which specifies the time-limit for the establishment as own resources of such duties once made definitive. In Belgium, Greece and the United Kingdom delays in establishment and hence in the making available of provisional duties made definitive, varied from three months up to one year and were exceptionally in the case of Belgium and the United Kingdom more than one year.

3.51. The Commission should initiate action to ensure the prompt establishment and making available of own resources accruing from provisional anti-dumping duties once they have been made definitive.

Effectiveness of systems for monitoring declarations with provisional anti-dumping duties

3.52. Where goods are subject to provisional anti-dumping duties they are released for free circulation when a security for the amount of the duties has been provided. Pending the decision to collect the duties involved definitively the import declarations should be registered or filed in order to enable their prompt identification when provisional duties become due definitively.

3.53. In none of the Member States visited was the system found to be effective in identifying promptly all declarations with provisional anti-dumping duties. For instance in two Member States (Greece and the United Kingdom) several declarations had to be retrieved from the Central Filing System where they were filed without

provisional anti-dumping duties being brought to account. Furthermore, in none of the Member States visited were provisional anti-dumping duties, once they were definitive, brought to account promptly (see paragraph 3.50).

Customs controls on imports of goods which are potentially liable to anti-dumping duties

3.54. The duty liability for goods which are potentially liable to anti-dumping duties depends on three criteria: the Common Customs Tariff heading, the country of origin of the goods and the exporter/manufacturer of the goods. This combination of criteria, the occasionally high duty rates and the complexity of the duty calculation make the goods in question vulnerable to misdeclaration e.g. by stating false Common Customs Tariff headings, false country of origin, false name of exporter/manufacture of goods and by overstating the declared customs value of the goods. The following examples of this were noted during on the spot inspections or brought to the attention of the Court by Member States:

- (a) importation of Kraftliner paper in the United Kingdom with evasion of anti-dumping duties due to overstating the customs value (see also paragraph 3.38);
- (b) importations of typewriters and photocopiers in the United Kingdom with evasion of anti-dumping duties of approximately 1,3 Mio ECU due to irregular origin declarations;
- (c) importation of photocopiers in Spain with evasion of anti-dumping duties of approximately 90 000 ECU due to irregular declaration of exporter/manufacture identity;
- (d) relatively significant number of declarations where anti-dumping duties were wrongly calculated in the United Kingdom.

3.55. Traditional customs controls aimed at verifying that imported goods actually conform to the description and specifications necessary for applying anti-dumping duties do not essentially vary from those applicable to imported goods in general. An examination of Member States' instructions on the subject, shows that only in Belgium and the United Kingdom do certain specific control parameters exist in the framework of the computerized clearance procedure.

3.56. Having regard to the risk of misdeclarations in the case of goods which are liable to anti-dumping duties, the Court recommends the adoption of control measures which provide for a higher frequency and wider scope of both documentary and physical inspections in respect of these goods.

Imposition of provisional anti-dumping duties and monitoring of undertakings by the Commission

Provisional anti-dumping duties

3.57. Provisional anti-dumping duties are introduced to prevent injury being caused to the Community industry during the period of time required for an in-depth examination to determine the appropriate level of anti-dumping duty to be definitively imposed. The period of time between the initiation of an investigation and the imposition of a provisional duty however has increased from 5.7 months in 1983 to 7.0 months in 1984 and to 8.0 in 1985. The situation has stabilized since then, with the average period in 1986 and 1987 being 7.6 and 7.7 months respectively⁽¹⁰⁾. The prolongation of the period of investigation affords a great opportunity to importers to avoid anti-dumping duties or restrictive undertakings by accelerating importation of the goods under examination.

The acceptance and monitoring of undertakings

3.58. As already indicated above the Commission can in the course of an investigation accept undertakings. The basic anti-dumping legislation of the Community provides for a number of possibilities to check that undertakings are being complied with. However, the Court notes that there has been no systematic monitoring by the Commission to verify that price undertakings are being complied with. For instance, it has found that for eight undertakings out of 12 accepted during 1986 the exporters did not fulfill the reporting requirements agreed upon. The latter constitutes a violation of an undertaking and may lead to the imposition of provisional anti-dumping duties. In two of the cases the Commission in fact imposed such duties.

3.59. An affected Community industry may request a review of a decision to accept an undertaking on the grounds that there are good reasons for believing that the

undertaking is being violated. However, the contents of undertakings are not published and are known only to the parties involved, including the Commission. This underlines the need for the Commission itself to monitor undertakings and to initiate appropriate action where necessary. A review should not have to await complaint by an affected industry.

Conclusions

3.60. In the Court's opinion, the system for imposing and bringing to account of anti-dumping duties as laid down in Community legislation and as implemented in Member States, does not ensure:

- (a) the immediate and uniform implementation of regulations imposing provisional anti-dumping duties (see paragraphs 3.47 — 3.48);
- (b) the prompt establishment and paying over to the Communities of own resources accruing from provisional anti-dumping duties once made definitive (see paragraphs 3.49 — 3.51);
- (c) clarity in national and Community accounts in respect of own resources which have accrued from anti-dumping duties (see paragraphs 3.45 — 3.46).

3.61. In the Court's view the scope and quality of traditional customs controls in respect of goods potentially liable to anti-dumping duties should be expanded in the light of the greater vulnerability of such goods to misdeclarations upon importation.

3.62. The Court recommends the Commission to take measures to shorten the time period required for the imposition of provisional anti-dumping duties. It further recommends improvement in the monitoring of undertakings.

AGRICULTURAL LEVIES ON IMPORTED CEREALS

Introduction

3.63. In its annual report on the financial year 1982 ⁽¹¹⁾, the Court commented on the inadequacy of the Commission's procedures for calculating the levies on cereals and cereal products. The Court has carried out an examination in the 1987 financial year which reviews these procedures in the light of its previous comments but also encompasses other important aspects of the determination of cereal levies and factors influencing the Community's own resources.

Description of the levy mechanism

3.64. Under the market organization of products covered by the common agricultural policy, levies are imposed on agricultural products imported in trade with third countries. Essentially, the purpose of the levy is to prevent price fluctuations on the world market from affecting prices ruling within the Community. The market organization for cereals, set up on 1 July 1967, is governed by the regulatory provisions contained in basic Council Regulation (EEC) No 2727/75 of 29 October 1975 ⁽¹²⁾. Cereal levies are structured on the basis of a sliding-scale tariff designed to offset differences between the Community threshold price for Rotterdam (derived from the target price) and the world cif (cost, insurance and freight) price calculated on a Rotterdam delivery basis. In order to adjust world prices for quality differences compared with the standard quality used in fixing the threshold price, coefficients of equivalence for cereals are also provided for. In common with the intervention and target prices, the threshold price for cereals is subject to a system of monthly increases, phased over part of the marketing year, designed to compensate for storage costs and to adapt supply, which is heavily seasonal, to a relatively stable demand pattern.

Importance of cereals in revenue yield from levies

3.65. The revenue from agricultural levies accrues to the general budget of the Community as part of own resources and is used without distinction or assignment to finance all expenditure entered in the budget. Separate out-turn figures for the levy amounts relating to the different market sectors are not available in the Commission. In the absence of such data, the Commission estimates that approximately two thirds of levies are accounted for by cereals. On the basis of this estimate, the yield from the levies on cereals for the years 1978-87 is as shown in **Table 3.1**.

Determination of the levy — world cif price

3.66. The detailed rules which the Commission must follow in determining the world cif price are set out in Commission Regulation (EEC) No 156/67 of 23 June 1967 ⁽¹³⁾. These may be summarized as follows:

- (a) account must be taken of all offers on which the Commission has information from Member States, its own sources and the main international grain exchanges;
- (b) the price determination is based on the most favourable purchasing opportunities, ignoring forward offers;

Table 3.1 — Estimate of the levy yield from cereals: 1978-87

Budget year	Agricultural levies (actual out-turn) (Mio ECU)	Estimated levies from cereals	
		Amount (Mio ECU)	As % of traditional own resources
1978	1 872,7	1 248,5	18,7
1979	1 678,6	1 119,1	15,3
1980	1 535,4	1 023,6	12,9
1981	1 264,9	843,3	10,4
1982	1 522,0	1 014,7	11,2
1983	1 347,1	898,1	9,7
1984	1 260,0	840,0	8,1
1985	1 121,7	747,8	7,1
1986 (EUR 12)	1 175,5	783,6	7,5
1987	1 626,1	1 084,1	9,0

- (c) appropriate price adjustments are to be made where delivery is to a port other than Rotterdam;
- (d) coefficients of equivalence are to be applied to offset quality differences between the imported and Community product;
- (e) price offers may be excluded if they are considered not of fair average quality or unrepresentative of the true trend of the market or unrepresentative as regards the small quantities available;
- (f) exceptionally, an offer price may be maintained for a limited period in order to avoid a sudden and considerable variation in the cif price or to maintain the true market trend;
- (g) alteration of the existing levy rate only when the amount by which it is to be increased or reduced exceeds a certain tolerance range (currently, 0,73 ECU/t).

3.67. The Court's findings are as follows:

- (a) in cases where the lowest world cif prices had been rejected in the price-determining exercise, the reasons for such rejection were generally not adequately or clearly recorded. Considering the importance of this discretionary decision for the final adoption of the cif price, there is a need to have the reasons reached for such decisions precisely recorded on the relevant documentation;
- (b) it frequently occurs that offer prices are not quoted on a cif basis, in which case the 'cost, insurance and freight' elements must be determined and added. The freight rates used in this exercise were not supported by updated or representative tariffs. In the case of transshipment charges, the rates of the sole agency used (a Rotterdam company) have been unchanged since 1983. The insurance charges were based on rates applied by a single company. In general, these charges need to be based on updated, representative and verified data;
- (c) the manner in which price information is supplied by Member States to the Commission is unsystematic and generally unsatisfactory. In the case of certain Member States (e.g. Ireland and United Kingdom) the information furnished is regarded by the Commission's services as totally unrepresentative, but the exact basis on which they collect their data is not

known. Article 24 of Regulation (EEC) No 2727/75 provides for the communication and distribution of information between Member States and the Commission in accordance with rules to be adopted by the Commission having regard to the opinion of the Management Committee for Cereals. No such rules have yet been adopted. Considering the importance for the levy system of the ability of the Commission's services to be able to make valid comparisons between price offers and sources, the failure to adopt the necessary rules providing for the transmission of price information on a systematic and accurate basis is a serious weakness;

- (d) more attention needs to be given to the internal supervision of procedures and to the checking of calculations affecting the determination of the cif price and the levy.

3.68. World market prices in cereals are subject to considerable fluctuation. Even with the stability introduced into the price-determination system by the rules, referred to in paragraph 3.66, the adopted cif price and derived levy rate change almost daily. Because the levy rate is determined centrally, great reliance must be placed on the methods and judgement used in such determination by the Commission's services. The relevant legislative rules attempt to serve the aims of both accuracy and stability. Therefore, considerable care and judgement are needed to ensure that a proper balance is struck in fixing the price and levy. From an own resources viewpoint, the concern is that the cif price finally adopted is based on all the available reliable information, that low price offers are not unreasonably rejected and that cif prices are not unjustifiably maintained at too high a level. Therefore, it is important that the Commission takes the necessary steps to improve the accuracy and reliability of its procedures in this area.

Determination of the levy — threshold price

3.69. The other levy determinant, the threshold price, is derived from the target price which, in turn, is derived from the intervention price. The intervention price is fixed for each product at the same level for all intervention centres in the Community. The target price for cereals is reached by adding to the intervention price:

- (a) a market component; and

- (b) transport costs from the region of greatest surplus (deemed to be Ormes in France) to the region of greatest deficit (deemed to be Duisburg in the FR of Germany).

To arrive at the threshold price at Rotterdam, the following elements must be deducted from the target price:

- (a) transport cost, Duisburg-Rotterdam;
- (b) trading margin;
- (c) transshipment costs at Rotterdam.

3.70. During the present audit the Court carried out a preliminary examination of the data and methodology used by the Commission to determine these prices. However, because the target price and the threshold price are central elements in the organization of the cereals market, the effect of which extends beyond levies, the Court cannot draw any conclusions at this stage. Further aspects will need to be studied.

The advance fixing system

Advance fixing provisions

3.71. Advance fixing is a facilitative regime applicable to import levies and to export refunds across agricultural market sectors in trade with third countries. As regards cereal levies, the legal provision (Article 15(2) of the basic Regulation) states that, at the request of the applicant, the levy to be charged shall be that applicable on the date the application for the import licence is lodged, adjusted on the basis of the threshold price in force during the month of importation. A premium may also be added to the advance fixed levy. The purpose of advance fixing is to allow importers to ascertain the levy charge in advance of importation thereby facilitating the determination of their final 'customs-paid' prices and the execution of purchase and supply contracts. Regarding the proportion of cereals imported under advance fixing, the Court found that the data supplied by Member States to the Commission was unreliable. However, the Court estimates that about 75 % of total cereal imports are advance fixed.

Consequences of advance fixing for the levy yield

3.72. The Court has examined the pattern of advance fixing of the levy over the three marketing years, 1984/85 to 1986/87 for the major cereal grains using quantitative data supplied by the Commission. It notes the pronounced incidence of advance fixing towards the end of each marketing year. Advance fixing at this time allows the imports concerned to obtain full advantage of the fall in the threshold price due on commencement of the new marketing year (for which the advance fixed levy will be adjusted downwards), while protecting them against any levy increase from a fall in the world cif price. The advance fixing facility provides importers with considerable scope for exploiting its use for speculative purposes, thereby granting them additional and unintended financial benefits. The Commission says, and the Court's findings confirm, that 'applications for licences are concentrated on the lowest rates, particularly in the case of maize' ⁽¹⁴⁾ and that 'the levy actually charged is 5-10 % less than what should in theory have been applied on the day of import' ⁽¹⁵⁾. Bearing in mind the relative inelasticity of demand for cereals imports, the Court estimates the negative impact of advance fixing on levy receipts to be between 40 and 45 Mio ECU per annum for the years 1984-86.

Evaluation of the advance fixing system

3.73. The clear objective of the levy system is to ensure that imported cereals are not sold on the Community market at less than the threshold price. The other rules governing trade with third countries should be consistent with this objective. However, there is a serious inconsistency in designing a system in which great care is taken to ensure that the levy is sufficiently responsive, on a day-to-day basis, to the need to protect the threshold price and then to insert into this system an advance fixing regime which has the potential to seriously weaken this responsiveness. Over the years, the Commission has taken different measures in attempts to remedy and counterbalance the negative consequences of advance fixing. However, taking into consideration the evolution of trade developments in cereals and, in particular, the decrease in Community cereal imports (see paragraph 3.75), it does not seem realistic to continue to maintain as such the present complex advance fixing system.

3.74. The Court considers that this system merits a re-evaluation which takes full account of its consequences

for Community revenue and of developments in the cereals trade.

Evolution of trade developments in cereals and cereal substitutes

3.75. There have been fundamental changes in the composition of the Community's trade in cereals since 1973. Between the years 1973/74 and 1986/87, Community imports of total cereals fell from 24,3 Mio/t to 6,3 Mio/t, while exports rose from 9,3 Mio/t to 20,7 Mio/t. Whereas in 1973, Community imports represented 17,9 % and exports 6,9 % of world cereals trade, by 1984, these flows were 4,2 % and 11,4 % respectively. Between 1973/74 and 1983/84, the Community's self-sufficiency in total cereals increased from 91 % to 116 %. Of particular significance has been the increase in self-sufficiency in maize (from 55 % to 84 %) and in total wheat (from 104 % to 134 %).

3.76. The decrease in the quantities of cereals imported has been due mainly to their displacement in the Community market by home-grown cereals and by imported cereal substitutes. **Table 3.2** clearly shows the contrasting trend in the quantities of cereals and cereal substitutes imported over a 10-year period. Cereal substitutes are energy-rich products competing directly with cereals, mainly in the animal feed sector. In contrast with the cereals levy, which in 1987 stood at a weighted average rate of 191 ECU/t, these products are imported at zero or very low tariffs. Due to their displacement of

imported cereals from the Community market, the rise in imported substitutes has resulted in a reduction in own resources from cereals-based levies. An estimate of the effect of imported substitutes on the levy yield, obtained by using the hypothesis that every 4 tonnes of imported substitutes displaces 1 tonne of imported cereals, indicates a potential levy reduction for the year 1987 of 724 Mio ECU.

Conclusion

3.77. Following its examination of the levy system as applied to cereals, the Court is concerned at the continuing lack of Commission records of reasons for decisions, unsatisfactory collection of information and inadequate supervision of calculation procedures. The Court stresses the need for due attention to be given to the impact on Community own resources of decisions taken within the global market regime in cereals. The levy is seen as performing a specific price-adjusting function within this regime and although it cannot be considered as a fiscal instrument independently of market considerations, there exists a responsibility on the Commission to ensure that Community revenue, in the form of agricultural levies, is not reduced from its potential level without compelling reasons.

Table 3.2 — Quantities of cereal grains and cereal substitutes imported into the Community for livestock feeding during selected years

(1 000 t)

Product	1976	1985 (EUR 10)	1986 (EUR 12)	1987 ⁽¹⁾ (EUR 12)
Cereal substitutes:				
Manioc	2 984	6 336	5 822	6 289
Corn gluten feed	1 147	3 542	4 097	4 244
Citrus peels	646	1 467	1 237	1 463
Maize germ cake	629	958	1 430	2 089
Molasses	2 199	2 920	3 507	3 161
Cereal grains imported for livestock feeding	27 800	5 600	5 824	4 496

Source: Eurostat/Comext.

⁽¹⁾ Figures for 1987 are based on the first 11 months of the year.

MAKING AVAILABLE OF CUSTOMS DUTIES BY SPAIN AND PORTUGAL

3.78. In its annual report for 1986⁽¹⁶⁾ the Court drew attention to the fact that customs duties were established by Spain and Portugal only from 1 March 1986 and not from the date of accession, 1 January 1986. The financial provisions of the Act of Accession provided for the establishment of these duties from the date of accession. Commission departments estimated the amount involved to be between 50 and 60 Mio ECU. The Commission issued a formal request for payment and it was pursuing the matter further at the time the 1986 report was published.

3.79. Since then, following long discussions with Spain and Portugal, the Commission has changed its position. These Member States have not established and paid the duties as requested. Even so, by decision of 6 January 1988, the Commission decided not to initiate infringement proceedings under Article 169 of the EEC Treaty. In addition, it decided not to pursue the matter further.

3.80. This raises the question as to whether a decision by the Commission alone to renounce Community own resources is within its legal powers.

EXEMPTION FROM CUSTOMS DUTIES APPLIED UNILATERALLY BY MEMBER STATES ON GOODS OF MILITARY NATURE

3.81. In its annual report concerning the financial year 1984⁽¹⁷⁾, the Court referred to the practice adopted by Belgium, Denmark, Greece, Italy, Luxembourg, the Netherlands and the United Kingdom — first noted in 1977 — of exempting from customs duties imports of goods of an exclusively military nature and goods which could equally be used for civilian purposes. Such exemptions, based by those Member States on Article 223(1b) of the EEC Treaty, were censured by the Commission and gave rise to the initiation of infringement procedures under Article 169 of the EEC Treaty in respect of imports from third countries of military goods which could equally be used for civilian purposes. As regards materials of an exclusively military nature which have not been included in this infringement procedure, the Commission was confident that the outcome of the

infringement procedure will confirm its position on the applicability of the Common Customs Tariff to military equipment in general, thereby making further recourse to infringement proceedings superfluous.

3.82. The Commission has informed the Court about the present situation regarding progress on these infringement procedures.

(a) In July 1985 a reasoned opinion was sent to Belgium, Denmark, Italy, Luxembourg, the Netherlands and the United Kingdom in respect of the non-application of the Common Customs Tariff (CCT) to imports from third countries of materials which could be used for either civilian or military purposes. In October 1985 and April 1986 a formal request for payment of the import duties involved was sent to Belgium, Denmark, Greece, Italy, the Netherlands and the United Kingdom. Four Member States, i.e. Belgium, Italy, the Netherlands and the United Kingdom, have made the possible paying over of any own resources due conditional on the outcome of the infringement procedure. In the case of Denmark and Greece, replies are still outstanding;

(b) the Commission repeats that it is the Member States which calculate the amounts of customs duties to be made available to the Community and that since Member States do not make available the duties in question they do not calculate the amounts involved either. It further states that it is not in a position under the existing Community provisions to ask Member States to calculate the amounts of duties independently of these being made available.

3.83. To regularize the situation for the future the Commission proposed a draft regulation to the Council on 29 September 1988⁽¹⁸⁾ — 10 years after the Court first commented on this matter. As a result of the situation described in paragraphs 3.81 and 3.82, considerable amounts of customs duties relating to the importations in question have not yet been made available to the Commission. Not only is there an urgent need to introduce definitive Community provisions governing the importation and entry for free circulation of military equipment but also to recover the Community revenue not yet made available.

3.84. Concerning the calculation and notification of the amounts of duties involved (see paragraph 3.82(b)), the Court is of the view that the Commission has the competence to request to be supplied with this information by the Member States concerned on the basis of Article 18(2) of Council Regulation (EEC, Euratom, ECSC) No 2891/77 and the interpretation of this Article's scope contained in the ruling by the European Court of Justice in the Como butter case⁽¹⁹⁾.

GENERAL CONCLUSION

3.85. All of the commentaries on the five subjects dealt with in this chapter illustrate the vulnerability of the Community's own resources. Constant vigilance at Commission level and at Member State level is needed if own resources are to be adequately protected. The payment by the Community of 10 % of traditional own

resources to cover their cost of collection imposes an obligation on the Member States to give value for money in this respect and it also obliges the Commission to ensure that a high standard of service is received. The protection of the Community's own resources becomes all the more necessary in an environment where trade is generally being liberalized with a tendency to downgrade customs controls. The prospect of a single European market in 1992 adds a new urgency to ensuring that all necessary measures are taken in good time.

(¹) OJ L 128, 14.5.1985, p. 15.

(²) OJ C 342, 31.12.1980, paragraphs 3.48 — 3.61.

(³) OJ L 38, 9.2.1977, p. 1.

(⁴) OJ L 107, 22.4.1987, p. 1.

(⁵) The Control Copy T No 5 is a document supplementing, if necessary, the normal transit declaration and is used to furnish proof that the goods for which it was issued have reached the destination or been put to the use provided for in the specific Community provisions under which it is required. For example, it is used to certify that goods declared for exportation under export refund conditions have left the geographical territory of the Community.

(⁶) OJ L 79, 21.3.1985, p. 1.

(⁷) OJ L 201, 30.7.1984, p. 1.

(⁸) OJ L 336, 27.12.1977, p. 1.

(⁹) OJ L 146, 2.6.1978, p. 19.

(¹⁰) Annual reports of the Commission to the European Parliament on the Community's anti-dumping activities.

(¹¹) OJ C 357, 31.12.1983, paragraphs 3.20 — 3.23.

(¹²) OJ L 281, 1.11.1975, p. 1.

(¹³) OJ L 128, 27.6.1967, p. 2533.

(¹⁴) Doc. COM(86) 200-EN, 13.6.1986, Volume 7/2, p. B/417.

(¹⁵) Doc. COM(87) 150-EN, 15.6.1987, Volume 0/3, p. 363.

(¹⁶) OJ C 336, 15.12.1987, paragraphs 4.12 — 4.13.

(¹⁷) OJ C 326, 16.12.1985, paragraphs 3.29 — 3.33.

(¹⁸) OJ C 265, 12.10.1988, p. 9.

(¹⁹) Case No 267/78.

CHAPTER 4

**European Agricultural Guidance and Guarantee Fund,
Guarantee Section (EAGGF-Guarantee)**

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GENERAL INTRODUCTION

the global sums involved simply indicates that the advances are covered by available appropriations;

4.1. Subject to the modification mentioned in paragraph 4.3 below, the management of the European Agricultural Guidance and Guarantee Fund, Guarantee Section (EAGGF-Guarantee) continued to be governed in 1987 by Council Regulation (EEC) No 729/70 of 21 April 1970 ⁽¹⁾ which, together with the provisions of the Financial Regulations, in particular Title VIII, forms a legislative framework distinct from the rules of the general budget.

4.2. The essential features of the EAGGF-Guarantee financing arrangements provided by these regulations are as follows:

- (a) while the Commission retains ultimate responsibility for managing the budget, day to day implementation of the policies and measures giving rise to expenditure is firmly assigned to Member States;
- (b) Member States receive monthly advances from the Commission based on simple declarations of their incurred and forecast expenditure; by their nature these advances are not susceptible to the detailed approval of the Financial Controller whose visa on

- (c) the consolidated accounts of these monthly declarations eventually constitute the EAGGF-Guarantee income and expenditure account for the year in question;

- (d) at a later date the Member States present annual accounts of their EAGGF-Guarantee expenditure to the Commission; these accounts are subject to selective audit by the Commission under the procedure known as clearance of accounts and any necessary financial adjustments are effected between the Commission and the Member States and entered in the accounts at this stage.

4.3. In October 1987, Council Regulation (EEC) No 3183/87 of 19 October 1987 ⁽²⁾ introduced on a temporary basis revised rules for the financing of the common agricultural policy (CAP). The primary purpose of this regulation was to deal with a shortfall in appropriations available to the Guarantee Section of the EAGGF in 1987. It provided, therefore, that when the 1987 appropriations had been used up, which happened in practice in November 1987, the resources needed to finance the common agricultural policy for the rest of the year would be provided in the first instance by the Member States. This result was achieved by a two

⁽¹⁾ The footnotes are listed together at the end of the chapter.

months' postponement of the date at which the 'advances' referred to in paragraph 4.2 (b) above are paid to Member States and charged to the budget. This system will continue in force in 1988. The control characteristics of the system, which are the subject of certain observations later in this chapter, rest unchanged, however, except that payments are now based on Member States' declarations of expenditure incurred rather than on their forecast financial needs.

THE SITUATION OF STOCKS AT THE END OF 1987

4.4. *Tables 4.1 and 4.2* show the quantities and book values of stocks in public storage at the end of 1987 compared with the levels of previous years. Generally the figures show some significant improvements over the position a year earlier. They indicate a reduction in quantity of 9 % and in value of 18 %. These improvements are reflected in a substantial reduction in the potential losses attributed to stocks in public storage at 31 December 1987. Compared with the Court's estimate of 8 501,7 Mio ECU for the potential losses on public intervention stocks at the end of 1986, the Commission assesses the potential losses at the end of 1987 as 3 659,1 Mio ECU (Table 1 of Annex B to the consolidated revenue and expenditure accounts). The Commission's figure calls for the following comments from the Court:

- (a) following adverse comment from the Court in its report for the financial year 1986 ⁽³⁾ (paragraph 5.14) the Commission has now abandoned its notion of normal intervention stocks which are somehow immune from depreciation and its estimate of the potential losses at the end of 1987 takes account of total stocks at that date;
- (b) in actual fact, the total future Community loss in respect of public storage amounted to 5 302,1 Mio ECU at the end of 1987. The figure of 3 659,1 Mio ECU mentioned above should in fact be increased by 1 643 Mio ECU (Annex A 1(b) to the revenue and expenditure account), which represents the Community's debt towards the Member States for the storage of butter (530 000 tonnes) ⁽⁴⁾, disposal of which was initiated from the financial point of view during 1987, though the stocks themselves were still physically available at the end of the year.

NATIONAL CONTROLS OVER EAGGF-GUARANTEE EXPENDITURE

4.5. A consequence of the arrangements described in paragraph 4.2 above is that the legality and regularity of EAGGF-Guarantee income and expenditure depends initially and to a large extent subsequently on the controls exercised by Member States. In 1987 the Court examined Member States' controls over several important areas of EAGGF-Guarantee expenditure, and the relationship between these controls and those exercised centrally by the Commission. Some of the examinations are extensive and are still in progress. This part of the annual report summarizes present findings and, on this basis, draws conclusions about the adequacy of the decentralized control arrangements; and the reliability of some of the figures in the 1987 financial statements.

Control of expenditure on intervention storage

4.6. The Court has recently completed a study of the Community arrangements for the management and control of public storage of agricultural produce. The study concentrated on three markets (cereals, milk products and beefmeat) and six Member States (D, F, I, IRL, NL and UK), a combination which accounts for about 95 % of Community expenditure on public storage. The expenditure charged to the 1987 budget in respect of the operations described in the report is about 2 800 Mio ECU.

4.7. While the Commission carries out the central functions (market management, budgeting, financing, etc.) Member States are responsible for the day to day execution of the administrative tasks related to public storage as they occur on the local level. The Court paid particular attention to the latter aspects in its audit and found that the performance of Member States in the discharge of their responsibilities for public storage was not always satisfactory.

Control over quantities

4.8. Physical stocktaking is a basic safeguard in relation to the quantity of products held in storage and the Commission has issued an aide-mémoire to all Member States specifying that physical stocktaking of intervention stocks is to be carried out at the end of the year concerned. But the strength of this position is greatly diluted in that the Commission will accept, if full stocktaking is not practicable, stock statements submitted by the store-

Table 4.1 — EAGGF-Guarantee 1987: analytical table of the movements of public stocks 1985-87

Product	1985					1986			1987		
	Initial stocks	Pur-chases	Sales	Stocks 30.11.1985 (4)	Initial stocks (1)	Pur-chases	Sales	Stocks 30.11.1986 (4)	Initial stocks 30.11.1986	Pur-chases	Sales
Breadmaking wheat	4 448	1 671	2 228	3 890	3 931	1 683	3 270	2 475	2 474	2 110	2 176
Feedwheat	2 015	6 248	251	8 012	8 012	2 217	3 987	6 085	6 080	104	4 458
Subtotal common wheat	6 463	7 919	2 479	11 902	11 943	3 900	7 257	8 560	8 554	2 214	6 634
Barley	1 636	4 418	1 404	4 651	5 244	2 433	3 905	3 793	3 773	2 760	2 942
Rye	441	686	19	1 108	1 119	364	323	1 148	1 155	386	785
Durum wheat	853	695	561	986	986	271	230	1 023	1 023	790	16
Corn	—	—	—	—	—	392	201	190	185	14	176
Sorghum	—	—	—	—	—	3	—	3	3	8	3
Rice	—	—	—	—	—	—	—	—	—	0,2	0,2
Total cereals and rice	9 393	13 718	4 463	18 647	19 292	7 363	11 916	14 717	14 693	6 172,2	10 556,2
Sugar	—	—	—	—	—	61	45	16	16	—	16
Olive oil	162	12	98	75	247	75	35	283	283	84	56
Colza	—	—	—	—	—	0,2	—	0,2	0,2	—	—
Sunflower seed	—	—	—	—	—	31	5	26	28	18	29
Tobacco	15	13	13	15	15	40	16	39	39	47	44
Alcohol (2)	—	—	—	501	501	165	—	666	666	1 022	1
Skimmed-milk powder	787	223	496	514	514	508	247	862	858	56	318
Butter stored before 1.3.1985 (3)	—	—	—	514	514	—	315	374	375	—	346
Butter stored after 1.3.1985	—	—	—	—	689	—	26	931	930	389	457
Total butter	972	494	447	1 018	1 018	632	341	1 305	1 305	389	803
Beef carcasses stored before 1.3.1985 (3)	—	—	—	—	353	—	285	67	64	—	45
Beef carcasses stored after 1.3.1985	—	—	—	—	245	348	206	386	390	346	216
Total beef carcasses	481	253	145	589	598	348	491	453	454	346	261
Boneless beef stored before 1.3.1985 (3)	—	—	—	—	94	—	68	26	21	—	11
Boneless beef stored after 1.3.1985	—	—	—	—	118	162	87	193	197	161	154
Total boneless beef	133	129	48	214	214	162	155	219	218	161	165
Total beef	614	382	193	803	810	510	646	672	672	507	426
Pork	—	26	—	26	26	12	38	—	97	—	97

(1) Spain and Portugal included.

(2) The quantities of alcohol are expressed in hectolitres of pure alcohol.

(3) Commission Regulation (EEC) No 1624/86 establishes a depreciation for these products and foresaw their sale before the end of 1986 exercise.

(4) The differences between the 'theoretical' final stocks (initial stocks + purchases - sales) and the final stock figures that appear in the table are explained by two factors: (1) losses and (2) modifications made by Member States but not taken into account by the Commission.

**Table 4.2 — EAGGF-Guarantee 1987: value of stocks
at end of year
compared with earlier years**

Product	(Mio ECU)		
	1985 (Value as at 30.11)	1986 (Value as at 30.11)	1987
Breadmaking wheat	776,7	541,2	526,3
Feedwheat	1 613,6	1 135,4	332,4
Sub-total common wheat	2 390,3	1 676,6	858,7
Barley	940,5	728,8	706,4
Rye	225,7	248,3	165,3
Durum wheat	264,2	287,7	577,8
Maize	—	34,9	4,1
Sorghum	—	0,7	1,6
Total cereals	3 820,7	2 977,0	2 313,9
Sugar	—	9,7	—
Olive oil	115,6	421,1	487,7
Colza	—	0,1	—
Sunflower	—	13,9	8,5
Total oil seeds	—	14,0	8,5
Tobacco	14,6	30,4	40,7
Alcohol	47,3	64,8	160,4
Skimmed-milk powder	866,7	1 621,6	1 136,7
Butter	3 415,7	4 284,7	2 941,7
Total milk products	4 282,4	5 906,3	4 078,4
Beef carcasses	1 508,7	1 211,9	1 475,5
Boneless beef	761,5	783,6	805,4
Total beef	2 270,2	1 995,5	2 280,9
Pork	28,9	—	—
Grand total	10 579,7	11 418,8	9 370,5

keepers themselves. Whatever the administrative convenience of this procedure it can not, in the Court's view, provide the necessary independent verification. A programme of independent continuous stocktaking would better meet the aims of administrative convenience and adequate verification.

4.9. The Court found that, in practice, the extent to which Member States conduct physical stocktaking of intervention stocks was at best inadequate and at worst non-existent. In three of the Member States visited (D, IRL and UK) there was a measure of independent stocktaking but this did not extend to all products. In other cases (F and NL) complete reliance was placed on storekeepers' stock statements, sometimes with an element of surveillance by independent technical staff. In one Member State (I) there was neither independent physical stocktaking nor stock statements from storekeepers to support the quantities recorded as in public storage at the end of the year.

Control over quality

4.10. The Commission has not issued detailed guidance to Member States on the quality control procedures to be applied before products are accepted into public storage, and accordingly the practice in the Member States varies widely. In some cases (D, IRL and NL) staff of the intervention agency are present on the premises and initiate independent verification of the products entering public storage; in others (F and UK) this verification is left to the storekeeper acting in conjunction with the offerer of the product, or to the storekeeper alone.

4.11. During the period when the products are in store, it is very rare that tests are carried out by or on behalf of the intervention agencies to verify the state of preservation of the products concerned. Some storekeepers carry out such tests in their own interest as they are personally liable for the state of preservation of products in their stores and the intervention agencies may or may not have access to the results of these tests. For the rest, quality control is at best postponed until the products are released from intervention.

4.12. Quality control of products leaving intervention relies largely on the supposed opposition of interest between buyer and storekeeper, but in the Court's view this may sometimes be more apparent than real, for example, in those cases where the buyer and the storekeeper are in a business relationship. What is indisputable is that the intervention agencies themselves only very rarely sample and analyse goods released from public storage to confirm that there has been no undue deterioration in their condition or substitution while in store. Even if intervention agencies were disposed to carry out these tests on a systematic basis they would not be able to make direct comparisons between qualities on entry and on release as the stock records do not provide the necessary reconciliation information. As storekeepers are liable for the financial consequences of undue deterioration of products in their keeping, it is perhaps revealing that in the history of the CAP there is only one known area (cereals in France) where financial sanctions have been imposed on storekeepers of intervention products for undue deterioration in the quality of the products stored.

Storage conditions

4.13. The arrangements for the inspection of public stores by intervention agency staff vary widely. In Ireland intervention agency staff are permanently present on the

premises; in other Member States they visit intervention stores only infrequently, for example when suspicion of a particular problem has arisen. There is the same variation in the quality of the formal instructions on storage conditions given to storekeepers by the intervention agencies. In the circumstances it is not surprising that the Court found that storage conditions for some products in certain Member States (e.g. cereals in F) were far from ideal. This finding reinforces the view that adequate independent physical stocktaking and quality control are essential for the safe custody of intervention stocks.

Member States' declarations of expenditure

4.14. In common with all the other measures financed by the EAGGF-Guarantee, Member States' expenditure on public storage is charged to the Community budget on the basis of monthly declarations. For the purpose of assessing monthly expenditure, stocks are valued on a cumulative average cost basis, that is, the unit value at which stock is brought forward at the beginning of each month is averaged with the cost of stock acquired during each succeeding month; and the resulting book value gives the basis for calculating losses on sales. This procedure has three consequences:

- (a) stock values, losses on sales, etc. have to be calculated by *ad hoc* procedures not subject to the normal controls operating within standard accounting systems;
- (b) declarations of expenditure can only be provisional and subject to later correction, which engenders a certain laxness with regard to the reliability of the declarations;
- (c) profits or losses on sales cannot be attributed to individual transactions.

4.15. In practice the Court found that, for these and other reasons to do with the Member States' administrative arrangements, the monthly declarations submitted by Member States bear only a tenuous relationship to the actual level of the underlying expenditure. Its analyses showed, for example, that the average rate of error for quantities declared as having entered public storage was of the order of 25 % and that the average error rate of quantities declared as having left public storage, which determine the losses on sales from intervention to be made good by the Community, was as high as 45 %.

4.16. These figures are a measure of the accuracy of the individual monthly declarations as initially presented by the different Member States, and are based on subsequent corrections to these declarations introduced by the Member States themselves in the light of later information. Since the errors can be in either direction, the figures do not necessarily indicate serious under- or over-funding of the total expenditure chargeable to the EAGGF. Nevertheless, in the Court's view the systematic tendency for the monthly statements to be inaccurate calls in question the reliability of Member States' end-year declarations which are the basis for determining the final amount to be charged to the financial year.

Concluding remarks on intervention storage

4.17. In the absence, taken overall, of adequate independent physical stocktaking and quality control arrangements in the Member States, in the Court's opinion no reliance can be placed on published figures for the quantities and values of products held in intervention storage at the end of the financial year nor on the related expenditure in the year.

4.18. The monthly advance system gives Member States quasi-automatic access to Community funds and can be justified, in the Court's view, only if two conditions are met: firstly, that Member States' monthly declarations are reasonably accurate and, secondly, that there are effective arrangements for *a posteriori* verification. The first of these conditions is demonstrably not satisfied in relation to public storage expenditure. The system is error-prone and may well have consequences for the budgetary management that is carried out during the year in respect of public storage expenditure.

4.19. As to the second condition, the observations in paragraphs 4.83 to 4.85 below confirm the doubts expressed in the Court's report for the financial year 1986 ⁽³⁾ (paragraphs 5.26 to 5.44) about the effectiveness of work done by the Commission's EAGGF auditors in the context of the clearance of the Member States' annual accounts.

Control over expenditure on export refunds

Introduction

4.20. Export refunds are subsidies paid to Community exporters of certain agricultural products to enable them to compete in third-country markets where prevailing prices are generally lower than Community prices. In 1987 export refunds charged to the Community budget amounted to 9 375 Mio ECU or about 41 % of the total expenditure on the EAGGF-Guarantee. The sectors mainly concerned were: cereals (3 070,6 Mio ECU), beefmeat (877,9 Mio ECU) and milk products (2 257,9 Mio ECU).

4.21. Rates of refund for produce exported vary according to the precise classification of the goods concerned. For example, chilled beef attracts a higher rate than frozen beef, hindquarters a higher rate than forequarters, beef from male animals a higher rate than beef from female animals, live pure bred animals if male, a higher rate than other animals. The complexity of all this can be judged from the fact that the nomenclature for export refunds contains more than 1 200 separate classifications for agricultural produce, including almost 400 for milk products and about 80 for beef.

4.22. Rates of export refund can also vary according to the country of final destination. For example, for exports of beefmeat the world is divided into 11 zones, with significantly different rates of refund for each zone. By way of illustration, the rate at 31 December 1987 for an export to South Africa of chilled hindquarters from adult male animals was 223 ECU/100 kg, but zero for the neighbouring countries of Zimbabwe and Botswana.

4.23. An additional complication is that export refunds can be pre-financed. That is, the payment of the refund can be made to the trader, against lodgement of a security, when the goods concerned are placed under customs control. Generally this takes place on the traders' premises, usually many months before the actual export takes place.

4.24. In these circumstances, tight controls are required to ensure: that what is being exported is in exact agreement (as regards classification, condition and weight) with what the trader has declared as exported for

refund claims' purposes; that produce exported enters for home consumption in the country of declared final destination; and that goods for which export refunds have been pre-financed have actually been exported in accordance with the regulations.

4.25. The need for tight controls becomes even more apparent when one considers the importance of the refund element in the total export transaction. For example, an exporter of live bovine animals in trade with a North African country would receive export refund at the rate of 80,0 ECU/100kg on produce valued on the world market at 81,6 ECU/100kg (figures as at 31 December 1987).

4.26. Under the general arrangements for the management of EAGGF-Guarantee expenditure described in paragraph 4.2 above, the primary responsibility for examining the goods exported and for vetting the refund claims lies with the Member States. The Community has, however, defined some of the essential central requirements. Commission Regulation (EEC) No 3665/87 of 27 November 1987 ⁽⁵⁾ consolidates common detailed rules for the application of the system of export refunds on agricultural products, including rules for: the supporting documents needed to substantiate a claim; the required evidence of export and of arrival for home consumption in the country of final destination; the calculation of the rates of refund; and the special arrangements for the pre-financing of refunds. And Council Directive 77/435/EEC of 27 June 1977 ⁽⁶⁾ requires Member States to carry out a posteriori checks of the commercial documents of undertakings receiving payments from the EAGGF, including payments of export refunds.

4.27. These rules still leave the Member States great freedom, however, to decide on the frequency and, more importantly, the quality of controls, to be exercised over expenditure on export refunds particularly in the key customs area. The Commission is seeking to repair this, at least to some extent, by proposing to the Council a regulation ⁽⁷⁾ which would require Member States to carry out a minimum level of physical inspections of exports attracting Community refunds.

4.28. In August 1985 the Court issued a special report ⁽⁸⁾ which drew attention to general weaknesses in the controls over Community expenditure on export refunds.

Scope of the Court's examination

4.29. It was against this background that the Court decided to examine in 1987 the effectiveness of controls, particularly at the national level, over payments of export refunds.

4.30. The examination was centred on payments of export refunds in the beef sector as, in the Court's opinion, this sector displays most of the factors which make export refunds such a difficult area to control. Most of the findings are specific, therefore, to the beef sector but the Court believes that many of them are applicable to export refunds as a whole. Having selected the beef sector as the primary target, the Court carried out missions to the four Member States (D, F, IRL and UK) who together account for 80 % of the expenditure in this sector. Member States have not been identified in relation to the specific observations in paragraphs 4.31 to 4.59 below in order to protect the confidential nature of some of the information concerned and to reduce the risk of the Court's findings being exploited by fraudulent operators. The findings have, however, been brought to the notice of the responsible authorities of the relevant Member States, and the Court has asked for their comments.

Findings of the Court's examination

Controls over the export of beefmeat

4.31. In all Member States visited, responsibility for certifying the classification, condition and weight of the exported produce rests with the national customs service. In the case of beefmeat, the relevant controls are carried out primarily at the traders premises at the point of packing for export.

4.32. In all Member States the trader is normally required to give prior notice of intention to pack for export to the local customs office. National instructions provide that a percentage of all export packings must be attended by the local customs officer; and that he must verify the details of quantity, description and export classification by check weighing and physical examination, including the opening of cartons, of a representative sample of the consignment. The arrangements for the transport of the meat under customs control from the traders premises to the port vary from Member State to Member State, but most beefmeat is transported either under a customs or health seal. At the port of export the

meat may or may not be subject to further customs examination depending on national practice.

4.33. The principal conclusion of the Court's audit of the frequency and quality of these controls is that they are defective in several respects:

- (a) the frequency of physical examinations is not determined by risk analysis based on criteria such as trader reliability or amounts involved, for example MCA transactions which involve much smaller sums are given the same scale of examination as export refunds;
- (b) even where arbitrary national scales of examination have been set, they are not always adhered to by the customs services. Some customs stations had recorded examination rates as low as 1 % without any apparent justification (see the minimum rate of 5 % proposed by the Commission in the draft regulation referred to in paragraph 4.27 above);
- (c) the extent of the examination is not always set in accordance with pre-determined criteria concerning the timing of the examination and the number of cartons to be inspected. This resulted in instances of superficial examinations of a few cartons during packings which were not necessarily representative of the complete consignment;
- (d) in 3 Member States, unless a trader is under specific investigation for fraud, meat taken into prefinancing control (see paragraphs 4.49 — 4.54 below) in a chilled state, then frozen before export, is never subjected to defrosting at export packings as a check against substitution. In the fourth Member State, a special exercise carried out in 1985, involving defrosting, revealed irregularities in 30 % of the cases.
- (e) except where there are good grounds for suspecting fraud, examinations at ports never go beyond verifying that whatever seals have been applied are intact. Moreover, instances were observed where meat had been exported through ports not approved for meat examination and ports where facilities for examination and weighing were inadequate, there being no weighbridge facilities and no scales in the cold stores;

- (f) statistics concerning examinations and results are non-existent or inadequate at the regional and central levels thereby negating effective management control.

4.34. The importance of physical controls is underlined by the following cases:

- (a) of the statistically chosen sample of 95 export consignments examined by the Court in one Member State, only one had been subject to random examination (by the national customs authorities of a Member State other than those covered by this audit) at the port of final export from the Community — and the examination revealed an irregular description of the goods concerned;

- (b) in another Member State examination of cartons being taken into prefinancing control at a trader's premises during the Court's audit revealed that trimmings not eligible for refunds had been hidden inside rolled boned beefmeat cuts. Extension of the examination at the Court's request to the full consignment revealed an irregularity rate of about 7 %;

- (c) for two years, a trader imported to the EEC prime beefmeat from South America described as offal in order to evade import levies and exported offal declared as prime quality beef in order to obtain export refunds; the irregular transactions involved were in the region of 16 Mio ECU;

- (d) the Commission's investigations into an irregularity concerning the country of destination for a series of beefmeat exports also revealed irregularities in the declared weights and description of some of the consignments concerned. The total sum at stake was of the order of 5 Mio ECU;

- (e) refunds were paid by one Member State on exports declared to be beefmeat. National controls had failed to detect that the consignments were in fact chicken scraps and the exporters concerned received irregular export refunds totalling about 1,4 Mio ECU.

Controls over the export of live bovine animals

4.35. In three of the Member States visited, live animals are subject to what is known as the direct export procedure under which an export declaration is presented at the point of exit from the Member State's territory and the goods are taken into customs control at this point. The goods should then be subject to selective examination to verify declared weights, descriptions and export refund nomenclatures.

4.36. From its examination of this procedure the Court acknowledges that control over the weights of live animals attracting export refunds presents practical difficulties. None of the ports visited provided facilities for the weighing of individual animals which meant that a full check of the weight had to be made by means of a weighbridge and lairage facilities. The Court noted that certain ports did not have these facilities and had to use facilities located some distance from the area of customs control, with the obvious danger of diversion to home use of animals on which export refunds were paid.

4.37. A well-publicized fraud in a Member State has shown that this risk is more than theoretical. Over a period of two years or so an exporter systematically diverted to home use live animals on which export refunds had been claimed and paid. The total cost of the fraud was about 4 Mio ECU.

4.38. The Court also found that in one Member State the weight taken into account for export refund purposes on all exports of live cattle was not that at the time of taking the animals into customs control but the weight established at the inland collecting centre. The weight loss between the inland centre and the port allowed in the calculation of the export refunds varied between 10 % and 15 %. This nationally approved procedure is contrary to Article 3(4) of Regulation (EEC) No 3665/87⁽⁵⁾ which states that the weight for export refund purposes is established on the day when the goods are taken into customs control. This irregular procedure has led to a considerable overpayment of export refunds dating back to at least 1982.

4.39. The same Member State also allowed refunds on live cattle exports at the rate of pure bred breeding animals when it was clear that the cattle exported were not pure bred. This is also, in the Court's opinion, a clear

breach of Regulation (EEC) No 1544/79 of 24 July 1979 ⁽⁹⁾ and Council Directive 77/504/EEC of 25 July 1977 ⁽¹⁰⁾.

Controls over the export of meat from male bovine animals

4.40. Because of the high rate of refund which it attracts meat from adult male bovine animals is subject to special controls under the general responsibility of the intervention agencies. Article 3 of Regulation (EEC) No 32/82 of 7 January 1982 ⁽¹¹⁾ provides that Member States shall lay down the conditions for certifying products attracting these special export refunds and shall take the necessary measures to ensure that no substitution takes place between the time they are checked and the time they leave the Community's geographical territory. It further states that the measures shall include identification of each product by means of indelible marks or an individual seal on each quarter. In the case of deboned beefmeat qualifying for special export refunds, Article 8 of Regulation (EEC) No 1964/82 of 20 July 1982 ⁽¹²⁾ provides that no other meat with the exception of pigmeat may be present in the boning room when the meat qualifying for special export refunds is being boned, trimmed or packaged. It further states that the bags, cartons or other packaging material in which the boned cuts are placed shall be officially sealed by the competent authorities. In the Member States visited these controls were exercised by means of physical supervision of the complete process from arrival of the live animal to the placing of the packed deboned cuts of beefmeat in customs control accompanied by an identification certificate. The precise nature of the controls varied from Member State to Member State but all had the objective of avoiding substitution by other beefmeat attracting lower refunds.

4.41. But the Court observed that:

- (a) at one trader's premises other beefmeat attracting lower refunds was allowed in the boning and cutting room at the same time as beefmeat from adult male animals. The two processing lines merged at the point of packing with the obvious risk of substitution;
- (b) at the same trader the sealing of the cartons with official seals was left at times to the trader's personnel thereby negating independent control;

- (c) at the same trader the identification of the quarters as adult male was supposed to be evidenced by an intervention agency seal. At the time of the Courts' audit, no evidence was found that these seals were applied;

- (d) in another Member State the labels identifying the individual cuts of meat as of male origin were left in the possession of the trader as were the paper seals, thereby again negating independent control;

- (e) in the same Member State evidence was also found that paper seals were incorrectly applied, not joining the top and bottom of the cartons, allowing easy substitution.

4.42. These are not just theoretical weaknesses. The trader referred to in paragraph 4.41 (a) to (c) above had consistently increased the quantities of meat stated to be from adult males by including cuts from other animals at the packing stage. The irregularity was eventually revealed by a credibility check on numbers of live male animals arriving at the slaughterhouse and the yield in terms of individual cuts.

Verification of evidence of export

4.43. Controls against the introduction of fictitious customs certificates of export into the paying agencies' payment systems for export refunds varied between Member States. In one Member State where the check of the authenticity of export declarations was dependent upon computerized reconciliations of the data held by customs and by the paying agency, these did not extend to comparisons of the export refund nomenclature nor was there a satisfactory system for follow up of discrepancies noted in quantities and export dates. In another Member State where the approved procedure requires the paying agency to send a percentage of all certificates back to customs for confirmation of authenticity, the Court found evidence that the procedure had fallen into disuse. None of the customs offices visited by the Court had ever received back any certificates for validation, and the paying agency had no records of having sent any out.

Controls over goods exported via the Community Transit System

4.44. Where agricultural produce attracting export refunds moves from one Member State across the territory of another before finally leaving the Community, the Community Transit System in Council Regulation (EEC) No 222/77 of 13 December 1976⁽¹³⁾ prescribes that seals shall be applied to the containers or vehicles concerned to protect the consignment against irregular diversion to Community use (see also paragraphs 13 and 14 of Chapter 3 of this report). At an important customs post on a land boundary between a Member State and a third country the Court found that 20 % of vehicles and containers conveying such produce under the Community Transit System had not been sealed in the Member State of departure. Despite this, the customs service at the point of final exit from the Community cleared them as presented without further physical examination and provided the exporter with a certificate to substantiate the refund claim. In the Court's opinion the weakness of these controls entails a high risk that export refunds are being paid on goods which never leave the Community.

Evidence of arrival at final destination

4.45. Export refund rates for the major expenditure products such as milk, cereals and beef are differentiated according to country of final destination. The exporter must therefore provide proof of arrival at final destination in support of the export refund claim, and this control is of particular importance for the destinations for which high rates of refund are payable (see paragraph 4.22 above). Under current legislation⁽⁵⁾ proof of arrival can be in the form of:

- (a) a primary customs entry document from the importing third country or an officially certified copy of it;
- (b) the common form of customs entry certificate established according to annex II of Regulation (EEC) No 2730/79⁽¹⁴⁾ (or Regulation (EEC) No 3665/87⁽⁵⁾ after the 1st January 1988) and stamped by the customs service of the importing country (Annex II documents);
- (c) any other document endorsed by the customs service of the importing country which identifies the products and demonstrates that they have been imported for consumption in that country.

If owing to circumstances beyond the control of the exporter none of these documents can be produced the regulation provides for substitute or secondary proofs. The proof of arrival except in cases of 'force majeure' has to be presented within twelve months of the date of export.

4.46. Although Annex II documents are specifically approved under Community regulations (see paragraph 4.45 above), in the Court's opinion they do not in themselves furnish conclusive proof of the arrival of the goods concerned for home consumption in the third country. These documents are not accountable documents of the importing country (the document itself is annotated in one Member State to the effect that completion of the form is required solely for use within the EEC). They are as a general rule completed by the exporter and at best the only evidence of arrival they bear is a signature and stamp alleged to be of the customs service of the importing country.

4.47. Furthermore the Court's examination of beef export refunds showed that paying agencies in the Member States had accepted as primary proof of arrival at final destination and without further enquiry:

- (a) documents purporting to be customs entries or Annex II documents without customs signatures and stamps;
- (b) secondary proofs of dubious authenticity, for example:
 - (i) a certificate of importation to Libya with a letter heading 'Foreign Office, Bucharest';
 - (ii) certificates of importation dated prior to the arrival of the goods concerned;
 - (iii) certificates provided by a commercial superintendents company with apparently no presence in the country concerned nor expertise in the commodity traded, and sometimes long after the arrival of the goods concerned;
 - (iv) bank certificates showing that the invoices for the goods had been settled but which gave no evidence as to the source of the funds;
- (c) documents accompanied by uncertified translations

or translations which indicated that customs stamps, signatures and comments were illegible.

4.48. The Court's doubts about the adequacy of this system of proofs of arrival at final destination are backed up by cases of irregularity which have recently come to the notice of the Commission:

- (a) it was discovered that two major export refund traders in different Member States owned complete sets of customs stamps of the main countries with which they traded. This illustrates the danger of accepting as conclusive proof of arrival Annex II documents bearing no more evidence than a customs stamp;
- (b) beefmeat exported to a third country in a zone with the highest rates of refund was diverted while at sea to a country with a zero rate of refund. Forged certificates of entry were used as proof of arrival in the first country. Irregular payments of export refund amounted to some 20 Mio ECU;
- (c) beefmeat exported from the Community to North America with the aid of export refunds was subsequently rejected by the veterinary services of the recipient countries. Nevertheless the exporters concerned used the partly completed import documents to substantiate arrival for consumption in the third country and irregular payments of export refund totalling about 3 Mio ECU were made on the basis of this documentation. Only a part of the subsequent rejections were notified to the paying agencies.

Controls over beefmeat taken into customs control under prefinancing arrangements

4.49. Regulation (EEC) No 565/80⁽¹⁵⁾ lays down general rules permitting the advance payment of export refunds on products warehoused under customs control on condition that they are exported within specified time limits. The advance payment is made subject to a security being lodged by the exporter for 120 % of the amount of the export refund involved. Title 2, chapter 3 of Regulation (EEC) No 3665/87⁽⁵⁾ lays down the detailed rules. This procedure is generally known as prefinancing, and in the case of beefmeat is significant as the Court estimates

that the majority of beef exports have been financed in this way.

4.50. Beefmeat which is subject to prefinancing is normally warehoused under customs control at the exporter's premises. The exporter must give the customs authorities prior notice of intention to place meat under customs control; and also make an export declaration giving details of the consignment, including quantity, description, export refund nomenclature and zone of intended export. This declaration must be available to the customs authorities should one of their officers exercise the right to attend the transfer of the consignment to the prefinancing warehouse.

4.51. Besides the duty to carry out unannounced test examinations of meat entering a prefinancing warehouse, customs authorities are also responsible for certifying the date of entry, which, except when the rate has been pre-fixed, dictates the date for determination of the refund rate.

4.52. The physical examination at this point is particularly important for beefmeat since the meat is placed in customs control in a chilled state, then frozen before export. It is evident that once meat is frozen it becomes almost impossible to say precisely what it is unless it is defrosted.

4.53. Controls over the time limits for warehousing before export are exercised by either the customs authorities or the paying agencies depending on the Member State involved. In most Member States paying agencies are responsible for the management and control of securities lodged in support of claims for prefinancing.

4.54. The Court makes the following observations resulting from its audit of prefinancing controls over beefmeat:

- (a) arrangements for prior notification of placing the meat under customs control were inadequate in one Member State as they did not allow the customs officer sufficient time to carry out an examination should he have wished to do so. In these circumstances it is not surprising that a major exporter visited by the Court had never been subject to such an examination;
- (b) in another Member State, an exporter visited by the Court was always allowed to wait until after the deadline for customs attendance before filling in the

export declaration, a practice which defeats completely the purpose of selective, unannounced customs checks;

- (c) examination of control records relating to presentation of proofs of arrival at final destination revealed that there were many instances of securities apparently outstanding long after the final date for presentation of proofs. In some cases the securities should clearly have been forfeited yet no action had been taken. By way of example one trader had outstanding securities of about 4,7 Mio ECU (some dating back to 1984) for which the time limits for the presentation of proofs had expired, but the national authorities had taken no steps to claim forfeiture of the securities. In another Member State, where the control of securities in respect of prefinancing is shared between customs and the paying agency, the securities outstanding according to customs amounted to 1,4 Mio ECU for one trader, whilst the paying agency records for the same trader indicated a nil balance. The authorities concerned had made no attempt to reconcile the two sets of figures;
- (d) in certain Member States examination of the same records revealed many instances of lack of control over the eventual export and arrival at final destination of quantities of prefinanced beefmeat and over the time limits for withdrawal from warehouse, final export and presentation of proofs;
- (e) the Court notes with concern that one trader, already under investigation for export refund fraud in 1985 in one Member State, was paid some 12 Mio ECU in 1986 in another Member State, without any special attention being paid to individual claims, without an investigation of his export refund activities and without a Directive 77/435/EEC control. The question thus arises of establishing whether the Commission has at present any system providing it with information on cases of this kind and allowing it to monitor the Member States' mutual information-supplying activities and react promptly where necessary. In this connection, the Court must refer the reader to its previous observations on this topic (see the annual report for the financial year 1986⁽³⁾, paragraph 6.10), which emphasized that the task of fraud prevention would be substantially facilitated if the names of persons or companies which had committed a fraud and/or an irregularity were known at Community level.

Concluding remarks on export refunds

4.55. The Court's examination has concentrated on the control objectives summarized in paragraph 4.24 above. The results have been unsatisfactory in every case. In the Court's opinion the scope and quality of national controls over the payment of export refunds, particularly in the beef sector, do not give reasonable assurance that the expenditure concerned was legally and regularly incurred.

4.56. In particular the Court sees a clear need to improve physical controls over exports. As the Court has said in a recent opinion⁽¹⁶⁾, adoption of the proposed Council Regulation (see paragraph 4.27 above) would be a step in the right direction. But to be fully effective the implementing measures would need to:

- (a) define the nature and extent of physical checks;
- (b) make clear that the minimum number of physical checks to be carried out at the time of the completion of customs formalities should be based on the value of export refunds and not on the number of declarations;
- (c) define criteria for risk identification to ensure that physical checks and sample-taking with a view to analysis are directed towards high risk areas;
- (d) ensure that physical checks and analyses are made on the basis of representative samples of the consignments selected for examination;
- (e) require Member States to maintain records of transactions subjected to physical checks, of the number and nature of checks carried out and the results thereof, and to submit summaries of these records annually to the Commission.

4.57. The Court's examination of the national controls over the management of securities in respect of prefinanced transactions gives no assurance that all sums due to the Community under the forfeiture rules are promptly and fully brought to account. The Court recommends that the Commission's clearance auditors should pay particular attention to the operation of these controls during visits to Member States.

4.58. While differentiated rates of refund apply, the Court has difficulty in envisaging any system of controls over proof of arrival which would provide sufficient safeguard against a determined attempt at fraudulent declaration.

4.59. More generally, the Court wishes to stress the importance in this context of the level of Community support prices, since it is the differential between Community and world prices which determines the level of export refunds. As long as rates of refund continue at the sort of levels currently in force (cf paragraph 4.25) the administration of export refunds will continue to entail a significant risk of fraud, as well as substantial budgetary cost.

Market measures

4.60. Since its inception the Court has carried out audits of the individual agricultural markets, the results of which are, for the most part, contained in special reports. The heterogeneity of these measures makes it difficult to draw general conclusions. However, almost all of the measures examined by the Court to date gave rise to control difficulties in at least some of the Member States.

4.61. The results of certain audits of this nature, which were carried out in 1987, are set out later in this chapter (see paragraphs 4.86 — 4.131).

Directive 77/435/EEC (6)

Introduction

4.62. This Directive seeks to improve the protection of EAGGF funds by requiring Member States to carry out systematic *a posteriori* checks or scrutinies of the commercial documents of undertakings receiving payments from or making payments to the Fund. These checks should be complementary to any imposed before completion of the transactions concerned and should be designed to establish, from an examination of all relevant commercial documents, that transactions have actually been carried out and have been executed in accordance with the governing Community regulations. The Directive lays down the minimum number of undertakings to be scrutinized each year but leaves Member States free to decide the scope and frequency of the checks to be

applied. Member States are required to report annually to the Commission on the implementation of the Directive.

4.63. In December 1984 the Court, in a special report ⁽¹⁷⁾ based on studies carried out between 1981 and 1983, drew attention to weaknesses in the implementation of this Directive. In its 1987 examination, which was based on replies to questionnaires from all Member States and visits to selected Member States (D, F, GR, I, IRL and UK), the Court found that while some progress has been made there are still serious weaknesses in many Member States.

The Court's observations on the implementation of the Directive in the Member States

4.64. The number of undertakings to be scrutinized in each Member State each year shall be not less than half of the number of undertakings whose annual transactions with the EAGGF exceed 100 000 units of account. The Court found that, in recent years, two Member States (GR, I) had failed to achieve this minimum number of scrutinies, achieving only 50 % of the target number and 70 % respectively.

4.65. Member States must ensure that the selection of undertakings for scrutiny is representative of undertakings according to their financial importance *vis-à-vis* the EAGGF. The Court found that not all Member States respected this need for representativeness. For example some Member States (GR, I) excluded from scrutiny altogether undertakings below the 100 000 units of account threshold notwithstanding that, for some measures, these undertakings account for the bulk of the transactions with the Fund; while most Member States did not carry out any Directive checks of public storage transactions nor of transactions concerned with the collection of co-responsibility levies.

4.66. As mentioned above Member States should submit annual reports to the Commission on the application of the Directive. The Court's enquiries showed that at 31 December 1987, that is some nine months after the reports for 1986 should have been received, the position was that one Member State (I) had still not sent in reports for the years 1984 to 1986.

4.67. There are wide differences between the Member States in the planning and performance of Directive work. In the best cases the work was well-coordinated (e.g. export refunds in F), selection of undertakings was done on a rational basis making use of factors such as risk

analyses (e.g. export refunds in D) and there were good instructions, checklists, etc. for the carrying out of the scrutinies (e.g. UK). At the other extreme Directive work was unplanned, the choice of undertaking haphazard and the methods of carrying out the checks left entirely to the discretion of the individual scrutineer (GR). In some cases the checks included — most importantly in the Court's opinion — analytical reviews of the activities of the undertaking over a period of time and reconciliations of purchases, sales and stock figures; in others, and more commonly, the checks simply sought to establish the validity of a particular transaction by reference to the undertaking's books of account. In only one Member State (F) did the checks extend to carrying out physical inspections and sampling of the produce concerned.

4.68. In some Member States reports of scrutinies carried out were comprehensive as to the type of checks applied and the particular transactions tested (D, UK), whereas in one Member State (GR) no such information was included in the scrutiny reports which rendered them useless as a tool for monitoring the implementation of the Directive. Two Member States (IRL, UK) refused to allow the Court access to scrutiny reports notwithstanding that these checks are required to be carried out under Community law.

4.69. The number of staff allocated by Member States to Directive work as a function of expenditure to be controlled also varied widely, ranging from 1 controller per 3 Mio ECU of expenditure at one extreme (DK) to 1 controller per 140 Mio ECU at the other (GR). In some Member States staff employed on Directive work receive formal training in the examination and interpretation of company accounts (D, UK); in another no formal training at all (GR).

4.70. In certain Member States (GR, I) there could be conflicts of interest in the application of the Directive in that staff allocated to this work were also responsible for the pre-payment checks of the transactions concerned.

4.71. Not surprisingly given the position described above, the Court's enquiries revealed wide differences in the number and financial importance of irregularities discovered by Member States as a result of Directive checks. At one extreme a Member State (I) informed the Court that for a particular year it had unearthed irregularities at 80 undertakings (more than a quarter of those visited) affecting payments totalling almost 40 Mio ECU. At the other, the checks in certain Member States

(DK, GR), for the same year, revealed no or only insignificant irregularities.

Directive checks of undertakings claiming export refunds

4.72. As part of the examination referred to in paragraphs 4.20 to 4.59 above, the Court reviewed the implementation of the Directive in respect of the coverage and quality of the tests applied to payments of beef export refunds.

4.73. A main finding was that two of the four Member States concerned (IRL, UK) had no statistics showing the population of undertakings claiming refunds, the date of the last scrutiny under the Directive and its results. At the Court's request one Member State (UK) did some research and provided the figures. These showed that two-thirds of all beef export undertakings had never been inspected and, more disturbingly, that one-fifth of such undertakings in receipt of refunds totalling more than 100 000 units of account a year had never been checked.

4.74. The Court accompanied scrutineers on Directive visits in two Member States (IRL, UK). It found that the quality of the tests applied was not high. There was no attempt to make analytical reviews of the activities of the undertakings over a period of time, e.g. reconciliations of purchases, sales and stocks. Checks were limited to proving particular transactions in the books of account by reference to basic documents such as bills of lading, invoices, packing notes, etc. As a general rule they did not extend to examination of secondary evidence, for example contracts, insurance documents and haulage fees. It was not always possible to prove the source of settlement of invoices. In the circumstances, the approach adopted afforded little additional assurance of the authenticity of transactions than could be obtained from an examination of the documents submitted with the export refund claim.

4.75. The Court's concern over the quality of these checks is underlined by the fact that, in a particular Member State (IRL) which has experienced a number of substantial frauds perpetrated over long periods of time in the beef exports' sector, Directive visits to the undertakings concerned had failed to give warning of malpractices.

THE COMMISSION'S SUPERVISORY ARRANGEMENTS

Commission's monitoring of the implementation of Council Directive 77/435

Introduction

4.76. These arrangements should operate to ensure: that Member States' systems for the day to day management and control of EAGGF-Guarantee measures are adequate; that Directive 77/435/EEC ⁽⁶⁾ is satisfactorily implemented in all Member States; and that there is a full and timely clearance or audit of the annual EAGGF accounts submitted by Member States. The Court's enquiries showed that the operation of these arrangements is not always satisfactory.

Commission's monitoring of the Member States' systems for the day to day management and control of EAGGF-Guarantee measures

4.77. In paragraph 5.71 of its report for the financial year 1986 ⁽³⁾ the Court concluded that the Commission's supervision of the implementation of EAGGF-Guarantee measures at the national level was inadequate. The Court's work in 1987 has served to reinforce this opinion.

4.78. The Court's examination of the Community arrangements for the management and control of intervention storage revealed that the Commission does not have full and up-to-date information on the national regulations and systems in force for this important area of EAGGF-Guarantee expenditure, and is therefore unable to check that national systems are in conformity with Community legislation.

4.79. For export refunds the Court's enquiries showed that the Commission has some, but far from complete, knowledge of the control systems in force at the national paying agencies. But it has virtually no detailed information on the systems of the national customs services which perform key controls over this large and high-risk area of expenditure. Where the Commission has gone on the spot and documented national systems the value of its work has on occasions been spoiled through failure to identify and deal with key control weaknesses.

4.80. In the first years following its introduction, the Commission used a number of means of influencing and monitoring the application of the Directive ⁽⁶⁾, including seminars for exchanging experiences, meetings of specialists, reviews of Member States systems, etc. But by 1984, as noted in the Court's special report of December 1984 ⁽¹⁷⁾, this type of activity had come almost to a stop and the Commission was doing little more than reacting passively to information supplied by the Member States. The Court's recent review of the Commission's work in the area of the Directive showed that this position persisted in 1987. Despite good intentions, the Commission was unable to find the resources to re-activate its monitoring role in the year, having transferred the staff concerned to the investigation of suspected frauds. Thus the following events planned for 1987 all had to be cancelled: a meeting between the Commission and the Member States to discuss ways of improving the application of the Directive, including the proposals contained in the Court's special report; visits to certain Member States to improve the Commission's knowledge of the practical implementation of the Directive; and the issuing of guidelines to Member States aimed at securing a more uniform application of the Directive.

4.81. The Commission's monitoring of the application of the Directive has also been less than satisfactory in the following respects:

- (a) it still does not have complete and up-to-date records of the procedures in force in the Member States for the implementation of the Directive;
- (b) in the specific cases of Spain and Portugal it has no information at all on record of the procedures introduced for implementing the Directive notwithstanding that it is now supposed to be fully operational in these two Member States;
- (c) there have been no seminars or other meetings with Member States to provide a forum for an exchange of views on the implementation of the Directive since 1983;
- (d) the Commission has not always replied promptly to requests for advice from the Member States on the correct interpretation of the Directive or on other

problems associated with its practical implementation;

(e) the Commission has taken no steps to improve the very sparse information submitted by Member States in their annual reports on the Directive;

(f) the Commission makes no systematic analyses of these reports to draw conclusions regarding the effective and uniform implementation of the Directive, and its cost/benefit;

(g) the ability to perform such analyses is not helped by the fact that it is not possible as things stand to use 'Irene', the computerized system for recording frauds and irregularities, to identify frauds and irregularities brought to light as a result of Directive 77/435/EEC checks.

4.82. The Commission did write to all Member States in June 1986 drawing attention to the main recommendations of the Court's special report of December 1984 ⁽¹⁷⁾. However, the meeting of experts to discuss these recommendations originally planned for the last half of 1986 has never taken place. There have been no reactions from the Member States to the Commission's letter and the Commission itself has taken no further action in the matter.

Commission's clearance of accounts

4.83. Contrary to the position on the clearance of food aid accounts (see Chapter 2), the Commission has made considerable progress in recent years in reducing the delays, which had been as long as five years, in clearing the Member States annual accounts of EAGGF-Guarantee expenditure. Thus in 1987 the Commission reached decisions regarding the clearance of the Member States' accounts for the financial years 1983 to 1985.

4.84. While acknowledging the Commission's achievement in reducing the backlog, the Court has to point out that the Commission was still unable to meet the deadline of 31 December 1987 set by the regulations for the clearance of the 1986 accounts. If the Commission cannot meet these deadlines the European Parliament will continue to be faced with the difficult problem of having to reach discharge decisions on accounts which have not been cleared by the Commission. On this subject the Court refers the reader to the Opinion ⁽¹⁸⁾ which it gave on the Commission's proposed modification of the Financial Regulation.

4.85. Progress has not been so rapid in dealing with the more difficult problem of raising the level of the clearance process to the point where it enables the Commission to reach a judgement about the reliability of Member States' accounts. The Court analysed this problem at some length in its last annual report ⁽³⁾ (paragraphs 5.26 to 5.44). Since then, the Commission has made further progress in introducing the procedures of the audit manual referred to in paragraph 5.31 of the above report, including the extension of its use of systems-based audit. Nevertheless there are still some important aspects of clearance work which are unsatisfactory and where little progress was made in 1987:

(a) there is a lack of coordination and consultation between the clearance service and the market services in the Commission. Moreover there is little co-ordination of efforts to bring national controls under an integrated approach and to render the control measures and activities of the different parts of the control pyramid as efficient and effective as possible;

(b) the number of staff allocated to this work by the Commission remains inadequate; no additional staff were made available in the year and no action taken to carry out the staff inspection recommended by the Court (paragraph 5.35 of its report for the financial year 1986 ⁽³⁾) to establish the number of staff required in the long term to carry out this vital work to a satisfactory standard;

(c) in the Court's view the level of expertise available to the Commission as regards computer and systems audit is still not high enough and no steps were taken to raise it in 1987;

(d) the Commission is still not allocating sufficient resources to the preventive role, that is to the role which seeks to ensure that Member States' systems for the management and control of EAGGF-Guarantee measures are adequate and so to reduce the risk of problems at the clearance stage;

(e) in the important area of export refunds (see paragraphs 4.20 — 4.59 above) the Commission's clearance work still does not include audit of the key customs controls over exports.

Finally, the Court has to conclude that the scope of the clearance methods remains such that the Commission is

in no position to make a judgement as to the correctness of the Member States' EAGGF-Guarantee accounts.

AUDIT OF INDIVIDUAL MARKETS

4.86. The regulations governing the individual market organizations provide for a great variety of grants, subsidies and other measures designed to regulate the markets. These measures, which vary considerably in terms of their financial importance, are administered by the Member States through the intermediary of a variety of intervention agencies and a complex network of central and local authorities is charged with controlling specific aspects of their implementation. Furthermore, each measure has its own specific criteria and control requirements.

4.87. During the year the Court examined certain specific measures relating to individual agricultural markets. The examination included aspects relating not only to the legality and regularity of control and payment procedures but also to the appropriateness of the measures that regulate the markets concerned. In particular, the following areas were examined:

- (a) Community measures for the private storage of table wine and of grape must and measures for the utilization of grape must;
- (b) measures adopted since the publication of the Court's special reports on olive oil⁽¹⁹⁾ and on Community wine distillation measures⁽²⁰⁾;
- (c) the administrative arrangements adopted by Spain to control Community expenditure in the olive oil and wine markets. For both products Spain is among the world's leading producers.

Audit of the table wine market: private storage contracts and Community aids for the utilization of grape must

4.88. The Court's audit of these measures was carried out in the FR of Germany, Greece, Spain, France, Italy and Luxembourg.

Private storage of table wine and of grape must

4.89. Current Community measures in this area comprise:

- (a) aid for the long-term storage of table wine or grape must: this measure is available early in the marketing year⁽²¹⁾ and is intended to remove surplus table wine or grape must from the market for a given period and thereby support the market price. The producer contracts to store a given quantity of table wine for a period of nine calendar months, or, in the case of grape must, until the following 15 September. As well as the storage aid the producer is also guaranteed a special distillation price which is considerably in excess of the market price for the stored wine at the end of the contract period. This special distillation price is limited to a maximum of 18 % of a producer's table wine production;
- (b) supplementary storage contracts: the producer may opt at the end of the long-term storage, to continue to store his wine (or that part of it which he has not submitted for distillation as described at (a)) for a further period of four months;
- (c) re-storage contracts: if it appears likely that the storage tanks used for wine under long-term storage contracts will be required to store the new harvest then the re-storage of the wine may be authorized.

4.90. Annual expenditure on Community aids for the private storage of wine has averaged 105.9 Mio ECU in the period 1981-86 inclusive. This figure includes expenditure on short-term private storage aid up to 1984 when the measure was discontinued as a Community aid⁽²²⁾. Expenditure on the long-term storage measure amounted to 70.5 Mio ECU in 1986 and 45.9 Mio ECU for 1987. Restorage aid averaged 8.0 Mio ECU during the period 1981-86 inclusive and for 1987 an amount of 7.6 Mio ECU was charged to the accounts.

Audit findings

4.91. The Court concluded that controls over long-term private storage contracts for table wine and grape must were less than satisfactory in that:

- (a) documentary controls were hampered by inadequate stock records;
- (b) physical controls were unsatisfactory because of infrequent on-the-spot visits during the storage period combined with the fact that in only a very limited number of cases was the wine stored in sealed containers;
- (c) there was inadequate official surveillance of the quality characteristics of the table wine under storage to ensure that the minimum characteristics were respected.

4.92. With regard to the stock records it was found in all the Member States visited with the exception of the FR of Germany, that, although the tanks in which wine or grape must was initially stored were indicated to the control bodies, no detailed stock records were available per tank number showing movements between tanks. Neither did the available records make it possible to clearly identify the wine under a storage contract within the total stocks of the winery at any given moment, thereby inhibiting the transparency of documentary controls. These inadequacies in the stock records can be attributed to weaknesses in Community regulations.

4.93. With regard to physical controls the Court found, particularly in France and Italy, that the available staff resources were extremely limited and did not allow for on-the-spot visits to be made with sufficient frequency to ensure that the wine remained in stock during the contracted storage period.

4.94. The sealing of storage tanks containing wine under long-term storage contracts would help to ensure that the wine remained in storage throughout the contract period. Such a procedure is not stipulated by Community regulations. Yet, it was found that the sealing procedure is the normal practice in the Province of Padova in Italy and it is accepted without demur by the producers. Also, it was found that, in Greece, the procedure is implemented when banks advance funds to wineries against the wine as security. The Court recommends that the possibilities be examined of extending the present limited application of the sealing procedure.

4.95. As an illustration of the dangers for the Community budget arising from the general weaknesses highlighted above the Court noted, in one case examined in France, that Community aid had been paid for the long-term storage of concentrated must although the

contract had been interrupted some days before the end of the contract period. In addition the concentrated must, which was used for the enrichment of wine, benefited from a further Community aid for the latter purpose.

4.96. Although the regulations contain a general provision that obliges producers to inform the intervention agency if, during the period of validity of a storage contract, there is any appreciable change in the quality of the product stored there is no specific provision requiring the control authorities to verify the quality characteristics during or at the end of the contract period. The Court's audit did not reveal any evidence that such checks were carried out.

4.97. With regard to the aid for the re-storage of wine, the Court's audit revealed that there was insufficient justification of the need for such re-storage in many instances. In one case examined in Italy it was found that wine had been re-stored, with Community aid, three working days before the end of the storage contract period. The wine was re-stored close to a distillery where it was later distilled under a price support guarantee distillation contract. In addition the re-storage was carried out in late October, when the new harvest would normally have been completed.

4.98. Given the combination of weaknesses listed above the only obligation on producers in many instances is to present wine of similar colour, quality and alcoholic strength at the end of the contract period and, in certain instances not even the respect of these basic requirements is verified. In the circumstances, therefore, the Court considers that there are not sufficient safeguards to ensure that the long-term private storage contracts for table wine achieve the desired objective of keeping specified quantities of table wine off the market.

4.99. The Court questions the economics of the present system of long-term private storage because there is ample evidence to indicate that many producers participate in the measure essentially to take advantage of the very attractive prices offered by price support guarantee distillation. Given the very strong likelihood of this wine being eventually distilled, the Court, while maintaining its reservations as to the appropriateness of Community wine distillation measures in general (see special report ⁽²⁰⁾), considers that it would be less costly for the Community budget to have the wine distilled immediately, rather than paying for its storage during a nine-month period in the first instance.

Community aids for the utilization of grape must

4.100. The Court's audit involved the two main types of Community aid in this area. These are:

(a) aid for the use of grape must for the enrichment of wines: the aid is payable to producers of concentrated grape must and rectified concentrated grape must used to increase the alcoholic strengths of grape must, table wines, wine suitable for yielding table wine as well as certain sparkling wine. The aid is fixed in ECU per % volume potential alcoholic strength and per hectolitre to allow for the difference in cost between enriching with musts and with sucrose, the utilization of the latter product being prohibited in Southern wine-growing regions. Its use has, however, been authorized in the FR of Germany and in Luxembourg until 1990 when the Council will re-examine the matter;

(b) aid for the use of must for the manufacture of grape juice: this aid was introduced on September 1, 1982. A portion of the aid (35 %) is retained by the Commission to be used to promote the consumption of the product.

4.101. Community expenditure averaged 68,7 Mio ECU for enrichment aid and 7,6 Mio ECU for grape juice aid during the period 1981-85 inclusive. Enrichment aid peaked at 140,8 Mio ECU in 1984 due mainly to the characteristics of the 1983 harvest. Expenditure has since fallen back to 75 Mio ECU in 1986 but rose again to 105,8 Mio ECU in 1987. Expenditure on aid for grape juice manufacture has shown a steady pattern over the period and stood at a level of 6,7 Mio ECU in 1987.

Audit findings

4.102. As in the case of private storage contracts it was found that the services responsible for controlling wine enrichment measures and the manufacture of grape juice were frequently not in a position to carry out physical controls although Community regulations stipulate that they be informed in advance when the aided operations will commence. This was particularly so in Italy and in France where the bulk of Community expenditure on this measure takes place. The Court considers that a sufficient level of physical controls are essential to verify key data, namely:

(a) that the grape must to be enriched has the minimum potential alcoholic strength required;

(b) that the increases in terms of volume and of alcoholic strength do not surpass the limits laid down;

(c) that no unauthorized substances are used for enrichment.

4.103. It was found in certain cases examined that the registers were not of a standard format and were badly maintained. Essential data, such as the origin of the concentrated must, was not indicated, in some instances. In others the procedures for informing the authorities in advance of the commencement of operations were unsatisfactory.

4.104. As to the retention of a large percentage of the aid (see paragraph 4.100(b)) the Court noted that the procedures for accounting at Commission level for the resulting credits were unsatisfactory in that the amounts retained were recorded in memorandum accounts which did not form part of the budgetary accounts.

4.105. Community regulations envisaged the authorization of wine enrichment as an exceptional measure where weather conditions made it necessary. However, the Court is concerned that the measure is authorized too freely. For instance, it was found that in Southern wine-growing regions of the Community where, *prima facie* the need for enrichment should be limited, the measure has been authorized on the most widespread basis possible each year since it was introduced. The consequences of such a liberal enrichment policy could be to incite producers to significantly increase their yields per hectare in the full knowledge that any loss in alcoholic strength which might result could be made good using the attractive enrichment aid on offer.

4.106. Where enriched wines are later sent for distillation a deduction is made from the relevant distillation aid if the alcoholic strength is increased beyond a certain limit. The Court's audit yielded ample evidence of producers who enriched their wines close to the limits allowed and yet stayed within the limits set for the payment of full distillation aid. Indeed it appears likely that any producer who strove for higher yields per hectare, normally resulting in wines of lower alcoholic strength, was able to enrich his wine to the maximum allowed without incurring a reduction in distillation aid.

MAIN CHANGES INTRODUCED BY THE COMMISSION SINCE THE PUBLICATION OF THE COURT'S SPECIAL REPORTS

Olive oil production aid

4.107. Since the publication of the Court's special report⁽¹⁹⁾ in 1985 the main activity concerning the control of Community expenditure has centred on the establishment of the olive oil control agencies in Italy and in Greece. After initial delays, due mainly to legal difficulties in finding an appropriate structure for the agencies, they became operational in Italy during June 1986 and in Greece during the period October-December 1987. Control agencies have recently been established in Spain and Portugal but are not, as yet, operational.

4.108. The Court has not, as yet, examined the activities of the control agencies in detail. It noted, however, that the Commission service responsible for monitoring these activities received regular progress reports and indicated that it is satisfied with the results achieved in Italy to date. The Court considers that the results, in terms of action taken, imply a serious approach to controls by the Italian agency. The Commission recently stated that 'in the first year of operation of the olive oil register some Member States found aid claims dropping by up to 30 %'⁽²³⁾. It is, as yet, too early to evaluate the controls effected by the Greek, Spanish and Portuguese agencies.

4.109. The special report was particularly critical of controls carried out by producer organizations. The Court notes the recent Council Regulation⁽²⁴⁾ which removes from these organizations the obligation to carry out on-the-spot controls on the percentage of their members' crop declarations. One of the reasons given for the modification is that 'the progressive establishment of the olive cultivation registers removes the need for these checks, which, because of their complexity, have not always been carried out correctly'. Part of the reasoning for the change was also the fact that the olive oil control agencies are considered by the Commission to have become operational to a satisfactory degree⁽²⁵⁾.

Wine distillation measures

4.110. In its special report on Community wine distillation measures the Court was critical of the arrangements whereby producers subjected to compulsory distillation of table wine could escape the financial effects of the measures by transferring their obligations to other producers. The Court welcomes, therefore, recent restrictions introduced by the Commission for the 1987/88 marketing year. The new measures do not, however, fully eliminate transfers although they restrict these transfers to producers in the same Member State.

4.111. The Court also notes the Commission's continuation of its stated policy to restrict the price support guarantee distillation. For the 1987/88 marketing year the measure is restricted to 10 % (as against 13 % in the previous year) of total wine production of the holder of a long-term storage contract during the previous marketing year. However, the Court reiterates its observation⁽²⁶⁾ that the price offered for this distillation measure is too high, given the present structural surplus and recommends that arrangements for reducing and eventually cancelling the measures should be stepped up.

4.112. In addition the Commission has recently proposed⁽²⁷⁾ to strengthen certain aspects of the general rules relative to the distillation of wine and of the by-products of winemaking. The proposal attaches particular importance to the following:

- (a) additional measures facilitating the identification of wine to be distilled by means of improved sample taking procedures when the wine enters the distilleries;
- (b) sanctions imposed by the Commission in cases of non-respect of obligatory distillation measures.

The Commission considers that these measures, if adopted, would eliminate certain important weaknesses indicated by the Court in its special report.

4.113. Recently the Commission has also proposed⁽²³⁾ a Council Regulation laying down general rules on controls in the wine sector in which provision is made for:

- (a) the improvement of controls at national level inter alia by better coordination between the competent control services;

- (b) the establishment within the Commission of a body of specialized officials for controls in the wine sector;
- (c) better cooperation between the competent authorities responsible for controls in the different Member States.

4.114. The Commission expects significant savings to result from the application of these proposed measures.

ADMINISTRATIVE ARRANGEMENTS ADOPTED BY SPAIN

Features of olive oil production and consumption

4.115. Spain accounts for about 30 % of world olive oil production — the same as Italy. Average production of virgin oil is approximately 500 000 tonnes plus some 40 000 tonnes of olive residue oil.

4.116. Annual consumption of olive oil in Spain amounts to approximately 370 000 tonnes or 75 % of production. As the Spanish market is protected from lower-priced imported oilseeds, there is, as yet, no Community consumption aid payable in Spain.

Features of wine production and consumption

4.117. Total annual wine production in Spain normally fluctuates between 34 and 37 Mio hectolitres of which 9 to 10 Mio hectolitres are of quality wines. Average yields per hectare are very low (approximately 23 hectolitres/hectare).

4.118. Consumption of wine in Spain, at approximately 55 litres per capita is significantly lower than in other producing Member States, notably Italy and France. However, it is stable or rising slightly in contrast to the downward trend in other producing Member States.

4.119. Community distillation measures are attractive to Spanish producers. For the 1986/87 marketing year a total of 12,5 Mio hectolitres was distilled under these measures. This represents slightly more than 50 % of table wine production in Spain during the period. For the 1987/88 marketing year Spain has been allocated a quantity of 10,6 Mio hectolitres to be distilled under the measure for obligatory distillation of table wine.

Administrative arrangements

4.120. For both products Senpa⁽²⁸⁾ has been designated as the intervention agency. Overall responsibility for paying Community aid rests with the financial directorate in Madrid. Responsibility for verifying entitlement to aid rests with the peripheral services, namely the provincial offices and the territorial inspectorates. Certain responsibilities have been delegated to specialized control services, as follows:

- (a) responsibility for controlling the movements of wine rests with the service for the prevention of frauds of the ministry of agriculture;
- (b) the control of wine distillation operations is the responsibility of the customs service;
- (c) responsibility for the physical operations involving the intervention storage of olive oil rests with an interprofessional organization called Patrimonio Comunal Olivarero — a semi-public body.

4.121. In addition, the authorities of the autonomous regions were given primary responsibility for approving the demands for production aid for olive oil. To that end they also receive copies of the crop declarations and demands for aid and, from time to time, submit lists of demands approved to the relevant provincial office of Senpa. The present system is a temporary one, however, and the olive oil control agency will, when established, assume overall responsibility for verifying the correctness of demands for aid. The establishment of the agency is already underway and it is expected that it will be operational for the marketing year 1988/89.

Audit observations

4.122. Notwithstanding the relatively low levels of Community aid paid in Spain to date the Court considers that, given the importance of the markets under review for Spanish agriculture, it is opportune to highlight certain weaknesses which the audit revealed so that corrective action can be taken.

4.123. The main areas of weakness can in the Court's opinion be summarized as follows:

- (a) there is a general tendency by the control services to rely unduly on declarations made by producers and other interested bodies (e.g. oil millers and wine distillers) without adequate independent verification that these declarations are correct;
- (b) there is a need for greater coordination between the different services responsible for carrying out controls, both in terms of clearly defining each service's duties and responsibilities and in increasing the exchange of information between the services. Such measures would avoid the risk of duplication and would allow for an increase in the level and extent of controls;
- (c) it was noted that the staffing levels of certain control services, relative to the numbers of demands for aid, unduly restrict both the quantity and quality of verification in some instances. Certain cases were noted where the levels of tolerance allowed, even when anomalies were discovered, are considered by the Court to have been too generous.

4.124. The Court considers that greater emphasis should be placed on verifying:

- (a) producers' crop declarations and millers' crushing declarations, in the case of olive oil; and
- (b) harvest, production and stock declarations as well as delivery documents drawn up by the distillers in the case of wine.

4.125. The importance of such verification can be judged from the use made of the above-mentioned declarations. Those in use for olive oil form the basis of paying Community production aid over a number of years. Declarations made by wine producers serve to establish their right to participate in Community voluntary distillation measures and also to establish their

compulsory distillation obligations. The delivery documents drawn up by the distillers are used to verify the fulfilment either of a voluntary distillation contract or of a compulsory distillation obligation. In view of the importance of these latter documents for control purposes the Court recommends that they should be authenticated by a public body at the time of their establishment.

4.126. The need for a better coordination between the control authorities was particularly observed in the case of controls exercised over olive oil production aid both by the staff of the autonomous regions and by those of the provincial services of Senpa. It appears that, as of now, neither service has a detailed knowledge of the control checks carried out by the other and organizes its controls independently. Such a system can lead to considerable inefficiencies. A more coordinated approach between the services would allow each service to complement the controls already effected by the other rather than, as may happen at present, repeating controls already made. A lack of coordination was also evident in the controls over wine distillation measures where the certificates furnished by the customs service were found to be insufficiently detailed to allow for a reconciliation between the wine delivered for distillation and the alcohol produced. The provincial offices of Senpa had to rely, therefore, on summaries prepared by the distillers but, as these summaries were not authenticated by the responsible control services, their value for control purposes was greatly diminished.

4.127. Again in the domain of olive oil production aid a need for the tightening-up of criteria used for the in-depth verification of claims for aid was noted. In the region visited during the audit it was observed, for instance, that, in examining the small percentage of declarations chosen for on-the-spot verification, declarations were accepted without further investigation even where preliminary checks showed discrepancies of up to:

- (a) 20 % between the area declared and that shown in the land register;
- (b) 50 % between the density of trees declared for the plot and the average density per hectare shown for the municipality in question in the land register.

4.128. The Court considers that given the obligation imposed by Community regulations to verify a minimum number of applications by means of on-the-spot visits, no tolerance levels should be allowed in the application of such checks.

4.129. The present Community system provides for an important role to be played by recognized olive oil producer organizations in checking the declarations of their members (a role which was criticized by the Court in its special report ⁽²⁹⁾). In Spain, however, such organizations did not exist and special provisions were applied in the first two marketing years after Accession to enable the production aid nevertheless to be paid on the basis of actual oil production and not, on the flat rate basis. With the encouragement of the Commission, producer organizations were formed in Spain during 1987 and they are faced with the difficult task of carrying out checks on their members. The timing of these arrangements is regarded by the Court as unfortunate in view of the recent adoption by the Council, at the Commission's proposal, of the measures (referred to at paragraph 4.109 above) to diminish the role of these organizations in the control procedures.

4.130. As to controls over olive oil intervention storage operations the Court found that, while the administrative arrangements were generally found to be satisfactory it was observed that a rapid deterioration in the quality of oil occurs during the storage period. Precise figures are not yet available but preliminary indications suggest that significant declassifications may be necessary. The Court recommends that the services of the Commission investigate the situation with a view to establishing to what extent the cause may be attributed to:

(a) unsuitable storage facilities;

(b) incorrect classification of oil when purchased into intervention.

4.131. It was also observed that sales out of intervention have largely been unsuccessful to date. Of a total quantity offered for sale of 55 000 tonnes only 23 600 tonnes was actually sold. The Court reiterates the criticisms contained in its special report concerning the lack of flexibility in the present sales arrangements ⁽³⁰⁾.

GENERAL CONCLUSIONS

4.132. In addition to the audit of selected market arrangements, the Court's work in 1987 has included in-depth examinations of two of the most important horizontal instruments of market management, namely public storage and export refunds. The result in both cases has been to call seriously in question the reliability of the accounts, because of doubts principally as to their accuracy in the former case and the regularity of the underlying transactions in the latter. Both in the present chapter (e.g. in paragraphs 4.56 and 4.57) and in its special report on the management and control of public storage ⁽³¹⁾ the Court has recommended a number of practical remedies for the weaknesses identified.

4.133. In addition the Court wishes to draw attention to certain other conclusions which it believes can legitimately be drawn from its 1987 audit of Community agricultural expenditure:

(a) as explained in paragraph 4.2 the administration of the EAGGF-Guarantee has since earliest years been de-centralized from the Commission to Member States. In the Court's view an essential corollary of this decentralized tradition is that the Commission should make the most vigorous possible use of its powers of central supervision and control, in order to ensure consistent and correct implementation of EAGGF-Guarantee measures at national level. Otherwise the gap between the intentions of the legislators and the practical implementation of measures at the local level will remain unacceptably wide;

(b) in order to fulfil this enhanced role the Commission will need to bring its influence to bear more actively on Member States at two levels: firstly, through the various horizontal instruments of coordination and control; secondly, through more systematic monitoring of and participation in Member States' administration of specific market measures;

(c) the Commission's knowledge of Member States' systems is too low at present because of inadequate surveillance and this largely accounts for weaknesses in Member States' control procedures. An example of

inadequate surveillance by the Commission is provided by the situation whereby the Spanish authorities were allowed to implement a fundamental change in their control procedures for olive oil

production aid while the Commission was simultaneously proposing a change in the relevant Community regulations in the direction of the original Spanish procedures (see paragraph 4.129 above).

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- (¹) OJ L 94, 28.4.1970.
(²) OJ L 304, 27.10.1987.
(³) OJ C 336, 15.12.1987.
(⁴) OJ L 79, 21.3.1987.
(⁵) OJ L 351, 14.12.1987.
(⁶) OJ L 172, 12.7.1977.
(⁷) Doc. COM(87) 9 final, 16.1.1987.
(⁸) OJ C 215, 26.8.1985.
(⁹) OJ L 187, 25.7.1979.
(¹⁰) OJ L 206, 12.8.1977.
(¹¹) OJ L 4, 8.1.1982.
(¹²) OJ L 212, 21.7.1982.
(¹³) OJ L 38, 9.2.1977.
(¹⁴) OJ L 317, 12.12.1979.
(¹⁵) OJ L 62, 7.3.1980.
(¹⁶) OJ C 147, 5.6.1987.
(¹⁷) OJ C 336, 17.12.1984.
(¹⁸) Opinion No 1/88, adopted 19.5.1988, not yet published.

- (¹⁹) OJ C 134, 3.6.1985, p. 1.
(²⁰) OJ C 297, 6.11.1987, p. 14.
(²¹) The wine marketing year begins on 1 September. Long-term storage contracts may be approved from 16 December to 15 February if the provisional balance sheet indicates the need for this measure.
(²²) France, Greece and Italy have been authorized to continue this measure as a national aid.
(²³) Doc. COM(87) 694 final, 13.1.1988.
(²⁴) Council Regulation (EEC) No 892/88 of 29.3.1988, OJ L 89, 6.4.1988, p. 1.
(²⁵) Doc. COM(87) 718 final, 21.12.1987.
(²⁶) OJ C 297, 6.11.1987, p. 14 (paragraph 7.3(d)).
(²⁷) Doc. COM(86) 398 final, 28.7.1986.
(²⁸) Servicio Nacional de Productos Agrarios.
(²⁹) OJ C 134, 3.6.1985, p. 1 (paragraphs 4.76 and 8.6).
(³⁰) OJ C 134, 3.6.1985, p. 1 (paragraphs 6.62 and 8.15(c)).
(³¹) Special Report No 5/88, OJ C 274, 24.10.1988.

CHAPTER 5

**European Agricultural Guidance and Guarantee Fund, Guidance
Section — (EAGGF-Guidance)**

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INTRODUCTION

5.1. Policy in respect of agricultural structures includes amongst its most important measures those introduced by Council Regulation (EEC) No 355/77 of 15 February

1977 ⁽¹⁾, Council Directive 75/268/EEC of 28 April 1975 (hill farming and farming in certain less favoured areas) ⁽²⁾ and Council Regulation (EEC) No 797/85 of 12 March 1985 ⁽³⁾. During 1987, the Court concentrated its investigations on the implementation of measures to improve the conditions under which cereals are stored

⁽¹⁾ The footnotes are listed together at the end of the chapter.

and marketed (Regulation (EEC) No 355/77). The Court also adopted a report on Community aid for the acceleration of agricultural development in Greece, the conclusions of which are summarized at the end of this chapter.

APPLICATION OF MEASURES TO IMPROVE THE CONDITIONS UNDER WHICH CEREALS ARE STORED AND MARKETING (COUNCIL REGULATION (EEC) NO 355/77)

Purpose of the investigation

5.2. Council Regulation (EEC) No 355/77, as amended on several occasions and adapted on the accession of Spain and Portugal, established a system of common measures to improve the conditions under which agricultural products are processed and marketed. The guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance) plays a part in this by contributing towards the financing of investment projects, which must be included in specific programmes. The maximum amount of Fund aid allowed is set at 25 % of the eligible cost. However, for a limited number of regions this amount is increased to 35 % and for certain others to 50 %. The average proportion of Fund aid to these programmes in the 1978-87 period was 26 % of the total cost.

5.3 Some 6 268 projects were financed under this regulation in the 1978-87 period and a total of 2 251,4 Mio EUA/ECU was granted. Measures concerning cereal storage accounted for 697 of the projects (i.e. 11,1 % of the total) and 218,7 Mio ECU (i.e. 9,7 % of the total amount of aid granted) (see **Table 5.1**).

5.4. The Court's investigation of the cereals sector was directed mainly at specific programmes and projects linked to the rationalization or development of storage in this sector. Its main purpose was to pinpoint particular problems concerning the drawing-up of programmes by the Member States, their implementation and the monitoring of their execution. **Table 5.2** shows changes in storage capacity, by Member State, using as a basis the quantities available according to the national programmes and adding the extra capacity achieved under Regulation (EEC) No 355/77. Finally, **Table 5.3** shows cereals production and the areas harvested in 1986 as compared with the situation in 1980.

5.5. The Court's observations on cereals storage are the result of the auditing, on the basis of records or on the

spot, of a number of projects included in specific programmes financed by the Commission during the 1980-87 period. Since 1981, the general rule has been that each project must be included in a programme, and since as early as 1 January 1979 priority has been given to projects which are included in approved programmes (Article 12 of Regulation (EEC) No 355/77). In the 1980-87 period, 604 projects were financed by the Commission. After examining the files of those which had been concluded, the Court inspected a significant number of projects on the spot during independent audit visits in seven Member States, namely, Belgium, the FR of Germany, Greece, France, Ireland, Italy and the United Kingdom, i.e. those countries which received most aid in the cereals sector during the period under review.

Problems relating to specific programmes and their objectives

5.6. Of the main provisions concerning specific programmes, the following stand out:

- (a) the specific programmes are drawn up by the Member States and are designed to develop or rationalize the treatment, processing or marketing of (...) agricultural products in part or all of the Community (Article 2 of the Regulation);
- (b) the Commission may grant Fund aid for projects which are included in specific programmes (Article 1(3));
- (c) the programmes must show that they contribute towards achieving the objectives of the common agricultural policy (CAP) and, in particular, towards the proper functioning of the markets in agricultural and fish products (Article 3(1));
- (d) the estimated time required for the execution of the programme should not in principle be more than three to five years (Article 3(1g));

5.7. The aim of Regulation (EEC) No 355/77 is essentially structural and it is concerned with the development or rationalization of firms engaged in the treatment, processing or marketing of agricultural products. Consequently, although the Regulation does not specifically rule out the financing of plant likely to be used for intervention purposes, the Commission made it clear in its decisions during the approval procedures for certain programmes that it would not participate in the funding of such plant.

**Table 5.1 — Number of projects involved and level of aid granted under Regulation (EEC)
No 355/77 in the period 1978-87**

	All sectors			of which : cereals		
	Projects		Aid granted		Projects	
	Number	%	Mio ECU	%	Number	%
Belgium	297	4,7	60,4	2,7	35	5,0
Denmark	298	4,7	51,7	2,3	7	1,0
FR of Germany	1 007	16,1	219,9	9,8	215	30,9
Greece	298	4,8	307,7	13,7	25	3,6
Spain	456	7,3	108,8	4,8	56	8,0
France	1 172	18,7	353,3	15,7	24	3,4
Ireland	404	6,4	170,2	7,5	38	5,4
Italy	1 063	17,0	678,9	30,2	164	23,5
Luxembourg	16	0,3	2,9	0,1	2	0,3
Netherlands	266	4,2	69,8	3,1	—	—
Portugal	186	3,0	62,3	2,8	15	2,2
United Kingdom	805	12,8	165,5	7,3	116	16,7
Total	6 268	100,0	2 251,4	100,0	697	100,0
					218,7	100,0

Source : Commission, DG VI.

Table 5.2 — Cereals: Storage capacity constructed in the Member States pursuant to Regulation (EEC) No 355/77 since 1980*(in 1 000 t)*

	Capacities available according to national programme data	Planned new capacity		Capacity constructed under R. 355/77
		in the programme	in the addendum	
Belgium	2 591	158	300	351 ⁽¹⁾
Denmark	—	—	—	—
Germany	6 000	495	330	415
Greece	1 337	1 000	1 000	700
Spain	—	—	—	—
France	25 200	450	5 080	245
Ireland	1 821	130	70	212
Italy	1 700	1 000	—	92
Luxembourg	70	10	—	—
Netherlands	—	—	—	—
Portugal	1 005	110	—	—
United Kingdom	15 000	1 000	350	640

⁽¹⁾ Explanatory notes for each Member State:

- Belgium: Primary storage (after harvest) and port storage, 250 000 t of which are accounted for by port storage;
- Denmark: No cereals programme. The projects referred to in Table 5.1 are confined to colza;
- Germany: Primary storage;
- Greece: Primary storage;
- Spain: No data available;
- France: Primary and port storage, 195 000 t of which are accounted for by port storage;
- Ireland: Primary storage;
- Italy: The national programme examined dealt in general with the storage of durum wheat;
- Luxembourg: The Luxembourg programme was approved on 30 June 1987;
- Netherlands: No cereals programme;
- Portugal: Figures based on the draft programme for 1988-90;
- United Kingdom: Primary and port storage.

Table 5.3 — Cereals (excluding rice)

	Production harvested in 1 000 t		Area harvested in 1 000 ha	
	1980	1986	1980	1986
Belgium	1 894	2 258	391	350
Denmark	7 070	7 968	1 816	1 588
Germany	23 087	25 590	5 210	4 812
Greece	5 097	5 164 ⁽²⁾	1 567	1 446 ⁽²⁾
Spain	12 746 ⁽¹⁾	15 795 ⁽²⁾	7 385 ⁽¹⁾	7 592 ⁽²⁾
France	47 870	50 502	9 889	9 487
Ireland	2 064	1 954	444	380
Italy	16 927	17 350 ⁽²⁾	4 935	4 642
Luxembourg	121	125	40	34
Netherlands	1 276	1 265 ⁽²⁾	224	171 ⁽²⁾
Portugal	1 148 ⁽¹⁾	1 470 ⁽¹⁾	1 037 ⁽¹⁾	973 ⁽²⁾
United Kingdom	19 474	24 486 ⁽²⁾	3 938	4 025 ⁽²⁾
EUR 12	138 774	153 926 ⁽²⁾	36 876	35 499 ⁽²⁾

Source: Eurostat.

⁽¹⁾ 1982.⁽²⁾ Estimation.

5.8. An examination of the specific programmes in the cereals sector has brought to light certain shortcomings concerning the objectives of the programmes, the analysis carried out during the approval procedure, the monitoring of programme implementation, their duration and the extent to which they were completed.

Objectives and approval of specific programmes

5.9. In its annual report on the financial year 1986 (4), the Court emphasized the fact that, when establishing their programmes, the Member States were interested more in satisfying the formal conditions of the regulations than in guaranteeing that the operations would have maximum impact. Moreover, the programmes made no mention of the expected effects on production or farm incomes.

5.10. The inquiry into cereals confirmed these observations. It also revealed that the very structure of the programmes sometimes led to a lack of consistency. This is mainly due to the fact that the programmes for each sector of agriculture, in this instance, cereals, are established by each Member State in a purely national context, without taking into account the objectives of the CAP. Furthermore, the need to increase storage capacities is not ascertained on the basis of an objective analysis of requirements.

5.11. Two types of situation are open to particular criticism:

- (a) almost all the programmes examined provided for an increase in cereals production and none of the measures was based on the idea of a stabilization or reduction of Community surpluses, so as to lighten the burden on the EAGGF's Guarantee Section. For instance, the last programme drawn up by the *Land of Baden-Württemberg* (approved by the Commission on 10 December 1986 as the second addendum to an initial programme dating back to 1980) is based on the assumption that production will increase until 1995. Similarly, the addendum to the French programme estimates storage capacity requirements on the basis of future increases in cereals production. The Commission approved the programmes without taking into account their compatibility with the contrary policy which it itself advocates in the field of market management;
- (b) the validity of the information provided, the objectives proposed and the reliability of the methods applied by the national bodies to estimate existing capacity are all factors that do not appear to have been adequately examined by the Commission, which should have done so, in the light, among other things, of items of common knowledge, such as the level and development of intervention stocks. The Court found this to be the case as regards the programme

submitted by Italy for the storage of durum wheat, which was approved by a Commission decision on 23 June 1986. According to the programme, existing storage capacity for durum wheat amounted to 1,7 Mio t and a further 1 Mio t of capacity were required. However, at the end of 1987, that is, one year later, the amount of cereals in intervention storage alone was of the order of 1,9 Mio t, yet the projects which had in the meantime been completed represented only about 65 000 t. Clearly, if the figures given in the programme had been a true reflection of the situation, there would have been insufficient storage space for such large surpluses. In Apulia, an inspection carried out by the regional authorities in 1987 revealed that durum wheat storage capacity stood at approximately 1 Mio t, although, according to the above-mentioned programme, there were only 565 000 t of capacity in 1985. The facts of the case suggest that this last figure does not accurately reflect the real situation.

Monitoring of the implementation of the programmes and their effects

5.12. In order to provide a sounder basis for future decisions, strict monitoring of each programme and analysis of the results obtained should be the constant concern of all parties involved. However, the Court discovered no such monitoring, either at the Commission or on its visits to the Member States. Although Member States generally possess figures on the number of projects financed and completed in the framework of each programme, they are unable to provide information on the results obtained as regards the objectives of the basic Regulation (profitability of projects, contribution to the economic effect of the structural improvement aimed at by the programmes, economic advantages for the producers, etc.).

Duration of the programmes

5.13. Regulation (EEC) No 355/77 allows, in principle, for a period of three to five years for the completion of a programme (see paragraph 5.6(d) above). However, by submitting addenda to the initial programmes to the Commission, the Member States manage to extend the duration of the programmes to eight years and in some cases longer. If this practice continues, the result could be a continuous string of joint measures, which is incompatible with the Regulation's objectives concerning planning.

Low rate of programme completion

5.14. The low rate of programme completion in two of the Member States visited (France and Greece) indicates

that the programmes planned did not correspond to the countries' real needs, or at least not for the entire duration of the programmes. Considerable discrepancies between programme targets and what was actually carried out testify to a lack of planning, which is contrary to the spirit of Regulation (EEC) No 355/77.

5.15. The level of implementation of the French programme, spanning the 1981-85 period, amounted to 33 % for primary storage (50 000 t as opposed to the 150 000 t planned) and 65 % for port silos (195 000 t compared with the 300 000 t planned). On average, the implementation rate was no more than 55 %. Nevertheless, the Commission approved an addendum to the previous programme for the construction of 5 Mio t of primary storage capacity and 80 000 t of port storage capacity during the 1986-90 period.

5.16. In the case of Greece, its initial programme covering the 1981-84 period was implemented to an extent of about 70 % as regards storage capacity (700 000 t completed, compared with the target of 1 Mio t). As regards drying, the programme was 100 % implemented. On the other hand, the addendum approved by the Commission in 1984, which covered the 1985-88 period, was only very partially carried out. It had consisted of the construction of new storage facilities with a total capacity of 1 Mio t and 23 driers.

Problems connected with projects financed by the Commission

5.17. The following observations are the result of findings made during audits carried out by the Court on the basis of records and on the spot.

Capacities used for intervention

5.18. In 1986, the Italian Ministry of Agriculture financed, using appropriations from the national budget, a project concerning 25 000 t of storage capacity in Altamura, in the region of Apulia, despite the unfavourable opinion of the regional authorities. The recipient, which had also obtained Community aid, was a multi-national cereals holding company with operations in seven countries. When the project was submitted, the company already possessed, through a subsidiary, 225 000 t of storage capacity in Apulia, all of which had been approved for intervention purposes. By the end of 1987, the company in question had increased its durum wheat storage capacity, independently of the EAGGF project, to 335 000 t, 320 000 of which were approved for use as intervention warehouses. It had in storage 285 433 t of intervention stocks, which made it the biggest holder of intervention stocks in Apulia and the second largest in

Italy. In the case of another project in Italy, this time in Lucania, it was found that of the 13 800 t of capacity constructed, 10 000 t were used to store intervention stocks. The recipient, who was being paid a profitable rent by the intervention agency, felt it was acceptable to use the capacities in this way.

5.19. In the FR of Germany, the Court found that in the *Land* of Schleswig-Holstein the recipients of aid for four projects were companies which were approved for intervention storage and that two of them used Fund-aided silos for intervention purposes.

5.20. These examples confirm the comments the Court has made in previous reports concerning other products and its observations ⁽⁵⁾ on the financing of investments whose profitability depends at least partly on the extent to which they are used for intervention purposes, and Regulation (EEC) No 355/77 is aimed at making a lasting improvement to structures by means of the creation or consolidation of economic activities which offer guaranteed profitability. If profitability is dependent on market support measures, it is clear that the structures set up or strengthened in this way will be fragile. Indeed, the restrictions which should result from Community market management policy could affect not only the profitability, but, in certain cases, the very survival of such companies.

Observance of project selection criteria

5.21. According to the Commission's criteria for eligibility, which have been in force since 1979 ⁽⁶⁾, projects involving the milling and malting industries (with the exception of those concerning the storage of barley) are not eligible for Community financing.

5.22. According to the wording of the criteria, although an exception is made for the storage of barley by malt-houses, no exception is made for cereals stored by the milling industry.

5.23. It was found during on-the-spot inspections that these criteria have not always been observed. For example:

- (a) in Belgium, a very big project, whose aim, at the time of appraisal of the dossier at the Commission, was to modernize a storage and transshipment company at Antwerp, was finally used to a large extent for the storage of malt for malt-houses;
- (b) in the FR of Germany, two projects for the extension of storage and processing capacity for quality cereals

concerned the needs of mills;

- (c) in Apulia, the Commission financed the construction, at a mill, of silos of a total capacity of 20 000 t for the storage of wheat for milling and the beneficiary of this intervention was a very large company. The decision to grant aid contains no mention of the reasons why the Commission did not apply its own project selection criteria.

Limited technical performance of certain storage projects

5.24. The projects undertaken by cooperatives in Apulia and Lucania consist of the construction of a group of barely equipped silos. This limited type of equipment is unsuited for the processing of homogenous consignments of durum wheat, which would considerably increase the value of the goods on offer. As a result, new projects with a higher performance level may have to be financed in the near future to replace plant constructed relatively recently.

Use made of the financial reports provided for under Regulation (EEC) No 355/77

5.25. Article 20, paragraph 1, of Regulation (EEC) No 355/77 lays down that for each project which has received aid from the Fund the beneficiary shall forward to the Commission a report on the financial results of the project. This report is to be submitted two years after full payment of the aid ⁽⁷⁾.

5.26. The reports have only recently been put to use, when the Commission prepared a first draft of a report on the progress of the projects financed under Regulation (EEC) No 355/77.

Shortcomings in the accounts and other irregularities

5.27. On-the-spot audits revealed various shortcomings in the management of projects. The most important were as follows:

- (a) in Belgium, the recipient of aid for a project, a big cereals exporter, was unable to submit his file on the invitations to tender issued for the execution of his

project, and his explanation was that the procedure had been carried out four years previously by individuals who had since been obliged to leave the company. Furthermore, as regards the invoices issued by the various construction companies and sub-contractors, those in charge were unable to provide documentary proof of the payment of each invoice. The basic document sent to the Commission when applying for aid was in the form of a summary statement: on one side appeared the invoices issued and on the other various payments, the total of which corresponded to that of the invoices. However, there was no proof that the payments were made only for work concerning the project;

- (b) in Greece, the body managing the projects financed by the Fund, which is also the recipient of the aid, has employed various construction firms, using the tendering procedure. These construction firms submit statements of account as work progresses, each time together with the corresponding invoices. A detailed description of the work in question is not given on each invoice issued. As a result, the breakdown of the costs between the Commission's implementing Regulation (EEC) No 1685/78 of 11 July 1978 ⁽⁸⁾, is based not on the invoices issued but on a calculation made by the recipient on the basis of his inspection of the work. Consequently, the invoices cannot be used as a basis for the detailed auditing of Community aid payment documents. Furthermore, in the statement of costs sent to the Commission, the date of the invoice is also taken to be the date of payment, although there is always a certain delay before invoices are paid and it would be good accounting practice to indicate the actual date of payment on each statement;

- (c) on-the-spot inspections revealed that checks by the Member States to ensure that projects covered by Regulation (EEC) No 355/77 are being properly executed are not carried out in a uniform manner. Each Member State has its own peculiarities, as do some regions. The task of inspection would be greatly simplified if a system of standardized checks was introduced and observed in each Member State (e.g. inspection of the recipient's bank statements, correlation between invoices, work performed and payment of invoices etc.).

Special problems relating to port silos

Introduction

5.28. Port silos are different in certain respects from other cereal storage investments. First, unlike most of the

projects funded, port silo projects do not concern primary storage, but are intended for the storage of cereals at ports with a view to their exportation to Member States or non-member States. They therefore have a direct bearing on a fairly critical area of foreign trade in the countries concerned. Secondly, in terms of financial value and volume per recipient, these investments are without any doubt of far greater importance than primary storage projects. Another feature is that the recipients are private firms, especially in France, or cooperative associations, whereas for primary storage projects, as a general rule, they are cooperatives.

5.29. According to Regulation (EEC) No 355/77, projects which receive aid should benefit farmers. However, port silo projects have only a secondary impact on producers, who derive only modest benefit from them. Indeed, producers and the operators of port silos are at opposite ends of the marketing process and, as a result, this type of project has only a reduced impact on the farmer. In fact, these investments are motivated more by concern for foreign trade than the direct interests of farmers, contrary to the intentions expressed in the regulation. Three countries in particular are involved in this area of economic activity, namely France, Belgium and the United Kingdom.

5.30. In France, the Community's biggest cereals producer, (accounting for approximately 38 % to 40 % of total production) the port programme for the 1981 — 1985 period provided for the construction of 300 000 t of storage capacity, 195 000 t of which were finally constructed. The French authorities therefore submitted an addendum to the previous programme, for the construction, among other things, of 80 000 t of port storage capacity in the 1986-90 period. It should, however, be noted that in the 1981-85 period, additional storage capacity of about 210 000 t was constructed in France independently of Regulation (EEC) No 355/77.

5.31. Although Belgium is only a small cereals producer, (accounting for about 1,5 % of Community production) and it is not self-sufficient, it is nevertheless the Community's third biggest cereals exporter after France and the FR of Germany. On average, 96 % of the cereals Belgium exported between 1982 and 1987 originated in Community countries (41 % from France, 27 % from the FR of Germany and 23 % from the United Kingdom) and 4 % originated in non-member States. Applications for aid were submitted for six projects included in the special programme for Belgian port silos, two of which were accepted. One involved the construction of a 250 000 t horizontal silo in Ghent and the purchase of equipment to increase the handling capacity of a 45 000 t silo in Antwerp. The programme, which was submitted for Commission approval as an amendment to the 1981 programme on the primary storage of cereals and the production of compound feedingstuffs, covers the

1983-85 period. In this period, cereal storage capacity in the port of Ghent rose by 360 000 t, 250 000 t of which had received Community aid. Between 1983 and 1986, therefore, total port silo capacity in Belgium increased from 797 000 t to 1 166 000 t, 905 000 t of which was in Ghent.

5.32. The United Kingdom followed the same trend as France and Belgium, and increased its storage capacity at the ports of England and Wales. This increase has enabled it to cope with the rise in British cereal exports (barley and wheat), which rose from about 4,7 Mio t in 1982/83 to about 10 Mio t in 1986/87. In fact, some of the cereals for export to non-member States (notably barley), which used to pass in transit through Belgian ports in particular, are now exported directly from British ports.

Observations

Lack of coordination in the adoption of port silo projects

5.33. The statistical data available and the information gathered during visits to the various Member States show that some of the investments which were partly financed by the Commission have created excess capacity. This was particularly the case as regards the port silos at Ghent which received aid. Their main use was connected with the transit of cereals for export to non-member States. However, cereals in transit from northern France increasingly pass via the silos at Dunkirk. This is also true for British barley, which, since the completion of the programme in the United Kingdom, no longer passes in transit through Ghent. This gives rise to doubts concerning the reasons behind the acceptance of some programmes, given that some Member States, when bringing the matter before the Standing Committee on Agricultural Structures, put forward certain reservations because of the uncertainty surrounding the future development of trade flows and, in particular, the origin of the quantities presented for storage.

Limited results of the programmes

5.34. Although the storage capacity involved in port programmes is clearly defined, given the small number of regions and countries concerned, considerable discrepancies were discovered between forecasts and actual achievements.

5.35. In addition, port silos funded under Regulation (EEC) No 355/77 are usually part of a much broader investment plan on the part of the beneficiary. The aid

therefore has only a limited role, since the projects for which it has been granted constitutes only a small part of more ambitious plans.

Lack of systematic inspections

5.36. Although the Commission clearly cannot carry out on-the-spot inspections of all the projects funded under Regulation (EEC) No 355/77, the Court is of the opinion that technically complex, high-cost projects should be systematically visited by competent officials from Brussels. Port silo projects which are of financial, technical and economic importance fall into this category. However, such inspections had not been carried out in the case of most of the projects the Court visited.

Conclusions and recommendations

5.37. The above observations reveal certain shortcomings in the management of programmes and projects. It is at programme level that most of the weaknesses lie. They appear in the drawing-up of the specific programmes by the Member States, the evaluation carried out by the Commission during the approval procedure, the analysis of the programmes' effects as regards the attainment of the objectives laid down in the basic Regulation and the CAP, the monitoring of their execution and the assessment made on their completion.

5.38. As regards prior examination of the programmes, it was discovered that the Commission did not possess, for all the Member States, the information and analytical tools essential for achieving an efficient structural policy by means of rational investments. In such cases, the Commission's approval is given without precise knowledge of the storage capacities available in the Community and in each region.

5.39. The specific programmes are in reality presented as a mere formality, although they are supposed to be an instrument for effective planning aimed at improving agricultural structures. In addition, the fact that the programmes are drawn up in a purely national, or even regional, context means that there is no consistency as regards their objectives at Community level. Such consistency can be achieved only if all the programmes are coordinated.

5.40. As regards the question of port silos more particularly, coordination is of greater importance when the silos are constructed in neighbouring regions.

Furthermore, the Court questions the priority given to the funding of these projects. The fact is that these investments are of greater benefit to cereals exporting firms than to farmers. Moreover, port silo projects financed by the Community generally represent only a small part of the total investments carried out by the recipients in this field.

5.41. As regards the execution of the actual programmes, that is, the implementation of the projects planned, the Commission possesses no information on the progress of each specific programme or on the actual use made of the investments. This is a particularly serious shortcoming insofar as storage facilities constructed in some Member States are, as the Court discovered on its visits, used in part or entirely for intervention purposes. Now, the Fund's contribution towards the financing of storage capacities calls for comment in two respects. First, it entails Community expenditure twice over for the same economic activity, i.e. the funding of capacities and the payment of storage costs. Secondly, it can encourage recipients to engage in an activity whose profitability is linked to intervention mechanisms and whose viability would be compromised if those mechanisms later became subject to restrictions.

5.42. Finally, the inadequacy of information and the lack of assessment both by the Commission and by the Member States regarding the results of the programmes undertaken makes it impossible to ascertain whether the Community objectives have been achieved.

5.43. If the Commission wishes to introduce an efficient, rational system of supervision in the context of the Regulation in question, it must make the system more effective, more consistent and more compatible with Community objectives. It should also be regularly monitored to enable the Commission to control the development of cereal storage capacities, with a view to adjusting them to the new direction the CAP is taking.

OBSERVATIONS RESULTING FROM THE SPECIAL REPORT ON COMMUNITY AID FOR THE ACCELERATION OF AGRICULTURAL DEVELOPMENT IN GREECE

5.44. On 7 October 1987, the Court adopted a special report on Community aid for the acceleration of agricultural development in Greece⁽⁹⁾. This aid is provided for under various Council regulations which were adopted specifically to benefit Greece in 1982, 1983 and 1984.

5.45. In its special report, the Court observed that the implementation of Community aid for the acceleration of agricultural development in Greece showed a lack of balance between the excessive amount of Community regulations and the limited monitoring of the application of these regulations at Community, national, regional and local level.

5.46. This lack of balance is itself a consequence of an attitude which gives priority to the financial transfer aspects of the measure, to the detriment of the expected results in terms of economic development and the improvement of structures.

5.47. A programme should not be just a combination of various operations. It should be principally an instrument for choosing measures whose impact one wants to increase in order to achieve certain results. This condition is not fulfilled if the contents of the programme are considered to be mainly indicative and if even the eligibility period is subject to differing interpretations.

5.48. Various concrete examples cited in the report show that the question of the eligibility of expenditure requires a continuous effort to be made in the field of information and assistance, so as to emphasize the objectives of the Community measures and prevent the aid being used for less effective expenditure.

5.49. Sufficient importance should also be given to inspection needs. Measures on the scale of those concerning Community aid for the acceleration of agricultural development in Greece cannot be undertaken properly unless the measures necessary for monitoring and inspection have been provided for at the outset.

5.50. The numerous measures undertaken in the area of agriculture in Greece show that the aim is to achieve significant results with regard to structural development. However, they also demonstrate a lack of overall planning, which jeopardizes the attainment of the objectives. This situation should be especially emphasized since the same difficulties might well arise in the implementation of the integrated Mediterranean programmes.

(1) OJ L 51, 23.2.1977, p. 1; regulation last amended by Council Regulation (EEC) No 1760/87 of 15.6.1987 (OJ L 167, 26.6.1987, p. 1).

(2) OJ L 128, 19.5.1975, p. 1.

(3) OJ L 93, 30.3.1985, p. 1.

(4) OJ C 336, 15.12.1987, paragraph 7.15 — 7.16.

(5) Annual report concerning the financial year 1985, paragraph 5.20(e). (OJ C 321, 15.12.1986) and annual report concerning the financial year 1986, paragraph 7.46 (OJ C 336, 15.12.1987).

(6) The criteria have appeared in published form since 1980.

(7) Article 1 of Council Regulation (EEC) No 1932/84 of 19.6.1984 (OJ L 180, 7.7.1984, p. 1). Previously the deadline was determined by the Commission in its decision to grant aid.

(8) OJ L 197, 22.7.1978, p. 1.

(9) Mention was made of this report in OJ C 326, 5.12.1987. It is available on request from the Secretariat of the Court.

CHAPTER 6

The European Regional Development Fund (ERDF)

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INTRODUCTION

6.1. The European Regional Development Fund (ERDF) was created by Council Regulation (EEC) No 724/75 of 18 March 1975 ⁽¹⁾, which was amended by Council Regulation (EEC) No 214/79 of 6 February

1979 ⁽²⁾ and superseded by Council Regulation (EEC) No 1787/84 of 19 June 1984 ⁽³⁾, which entered into force on 1 January 1985. Its aim is to help to correct the principal regional imbalances within the Community through financial participation in the development and structural adaptation of less developed regions and in the conversion of industrial regions which are in decline. The Fund bears a proportion of the expenditure incurred by the

⁽¹⁾ The footnotes are listed together at the end of the chapter.

Member States in the execution of Community programmes, national programmes of Community interest, projects and studies.

6.2. Between 1975 and 1986, 98 % of ERDF aid was allocated to projects, with infrastructures receiving the lion's share. Indeed, over the same period, aid for infrastructure projects amounted to 14 032 Mio ECU, which represents 81 % of ERDF commitments, and 24 832 projects were involved, i.e. 74 % of the total number of projects aided.

6.3. Under Council Regulation (EEC) No 724/75, the financing of infrastructures was permitted only insofar as they constituted an immediate or prior condition for directly productive investments. In 1979, the criteria for eligibility were broadened: as a result, the ERDF was allowed to assist projects concerning 'infrastructures which contribute to the development of the region or area in which they are situated, provided that this is justified by the regional development programmes'. The regulation also laid down that the share of assistance granted for financing infrastructure investments could not exceed 70 % of the total over a period of three years. Since this ceiling was persistently exceeded, provision was made under a Council Decision of 29 November 1983 (4) for the limit to be exceeded during the 1981-83 period.

6.4. Council Regulation (EEC) No 1787/84 maintains the principle of reference to the regional development programme and lists the categories of infrastructure which the Fund may not assist. Furthermore, as regards the allocation of Fund aid, it lays down that the Member States and the Commission should endeavour to ensure that an appropriate proportion (if possible, 30 %) of the Fund's resources is allocated to investments in industry. In practice, this proportion has never been achieved, owing to the shortage of applications for aid for industrial projects; on the other hand, the proportion of resources committed to infrastructure projects was 78 % in 1985, 84 % in 1986 and 91 % in 1987.

METHOD USED FOR ANALYSING THE UTILIZATION OF SUBSIDIZED INFRASTRUCTURES

6.5. In view of the large amount of ERDF aid that has been allocated to infrastructures, and bearing in mind the role played by infrastructures in regional development policies, the Court of Auditors has endeavoured to examine and assess the impact on regional development of infrastructures subsidized by the Community.

6.6. The approach adopted by the Court consisted of examining to what extent the facilities created with

ERDF aid in order to benefit the less favoured regions in which they were located were being used. The fact is that if no use at all is made of a new infrastructure, its effect on regional development will be similarly nil. On the other hand, if full use is made of the project, its contribution to the development of the region will be maximized. There is, therefore, a relationship between the rate of utilization of infrastructures and their impact on development; this relationship has both direct and indirect effects, the indirect effect generally becoming apparent only after a certain period of time.

6.7. However, the gross utilization rate of an infrastructure is not in itself an adequate yardstick by which to measure its contribution to regional development. The impact of a new project on the regional economy depends less on the general use made of it (gross utilization) than on the use made by economic agents in the regions (net utilization). To arrive at the net utilization rate, therefore, account has to be taken of cases where utilization has nothing to do with regional economic agents or where it does not represent an increase in the utilization of the new infrastructures compared with the situation beforehand. In other words, account must be taken of the effects of diversion, substitution, exportation and normal demand. In the case of the extension of a plant or its replacement and extension, the analysis should, of course, be confined to the net increase in capacity.

6.8. Diversion has the effect of causing activity to be transferred to the new infrastructure from other infrastructures in the same region. Substitution has the same effect as diversion, but in this case the transfer of activity to the new infrastructure is from similar facilities outside the region. The new infrastructure alters the supply conditions in the region, without, however, increasing the level of economic activity. Exportation covers cases where the new infrastructure is used by economic agents from outside the region. Finally, for the net utilization rate to reflect the regional impact as accurately as possible, the increase in utilization caused by normal increases in regional demand between the date when the new plant is commissioned and the date on which its utilization is measured (i.e. the effect of normal demand) also has to be deducted from the gross utilization rate. 'Normal increases in demand' are increases which would have taken place regardless of the creation of the new infrastructure.

6.9. It is worth noting that, as a general rule, investments not only increase the quantity of services available to the consumer but also improve their quality. Qualitative improvements can take various forms (e.g. an improvement in safety in the case of roads, a reduction in stop-over time at ports, an increase in the security of supply in the case of energy, better transmission quality in the field of telecommunications, etc.). However, if these qualitative improvements are to play a part in the process of regional development, they must, in the long run, result in the stimulation of economic activity and, in normal

circumstances, in an increase in the utilization rate of the infrastructures.

6.10. In its interpretation of the results it obtained concerning the utilization of infrastructures, the Court took into account the problem of indivisibility, i.e. the fact that, for techno-economic reasons, new capacities have to be greater than short-term demand. Initially, therefore, a degree of under-utilization must be regarded as acceptable; all that matters is that it should tend to diminish afterwards.

6.11. The method outlined above was applied on the basis of information provided by the national authorities in answer to questionnaires on the utilization of infrastructures over recent years.

6.12. It should be emphasized that the Court's examinations did not include any cost-benefit analyses or studies of alternative projects. The projects examined were in the form decided on by the national authorities and chosen by the ERDF. Effects connected with the construction period were not taken into account either, since they are, by nature, temporary. The method followed was therefore geared mainly to determining the utilization rate of infrastructures which had received financial assistance, so that the impact of these infrastructures on regional development could be assessed.

RESULTS IN TERMS OF THE UTILIZATION OF INFRASTRUCTURES

Roads

Gross utilization

6.13. The Court gathered information on the utilization of over 50 sections of road, each of which had received one or more allocations of ERDF aid for its construction. In general, it was found that, in over 60 % of the cases, the capacity utilization rate of the new road facilities was under 50 %.

6.14. In a quarter of the cases, the pre-existing infrastructure could have coped with the increase in traffic which subsequently occurred; the new infrastruc-

ture had therefore contributed little to development. This was found to be the case with various sections of road in France on the RN 106 (Languedoc-Roussillon), the RN 21 (Aquitaine) and the RN 11 (Poitou-Charentes). Similar cases were also observed during visits to Ireland (West), Italy, (Apulia), the Netherlands (Limburg) and the United Kingdom (North-West).

6.15. In other instances, the roads were little used because the development plans for the areas they served had proved unrealistic and targets had barely been met. In Scotland, for example, the East Fife regional road had been planned because of the expected expansion of the new town of Glenrothes, which never happened. There was a similar situation in the Netherlands concerning the road leading to the port of Eemshaven, which was constructed in the 1970s with ERDF aid but whose development fell very far short of expectations.

6.16. Another situation of this kind was observed in Luxembourg, in the case of the container terminal at Bettembourg. It was designed to handle 12 000 containers a year, but in practice functions at less than 15 % of its capacity. The number of jobs connected with operating the project (five) is significantly lower than that forecast (10). Furthermore, competing terminals were already in existence in neighbouring regions and these were also eligible for ERDF aid (Athus in Belgium and Garolier in the Metz region in France).

6.17. Sometimes little use is made of a project because it is just one element in an incomplete network. This is the case with the access road to Moss Side in the North-West of the United Kingdom, which will not be fully utilized until the road network in the area has been completed.

Net utilization

6.18. An examination of net utilization rates shows that in over 85 % of cases they amount to less than 50 %, with almost 45 % of projects even having a net utilization rate of less than 20 %. This difference between net and gross utilization is mainly explicable in terms of the considerable diversion effects.

6.19. For some roads, often those on the outskirts of towns, the gross utilization rate can be considered satisfactory. However, more detailed analysis shows that a large amount of the traffic on these roads is diverted from competing routes. This is quite clearly the situation in the cases of the N 1 in Ireland, a project concerning the Calder Valley road in the North-West of the United Kingdom, and in France, in particular in projects on the RN 106 (the Nîmes diversion and the Alès by-pass).

6 20 Some of the road projects submitted to the ERDF were not designed to promote an increase in road traffic related to the objectives of economic development, but rather to improve road traffic conditions. Although these projects make life easier for the inhabitants of the regions in question, it has to be said that such an objective may be rather far-removed from that of correcting economic imbalances. The ERDF has thus assisted various road improvement projects (e.g. lighting, road safety improvements etc.) on the Patras-Corinth motorway in Greece. In France, work on the RN 21 near Bergerac and on the RN 106 near Florac were not so much intended to increase the capacity of the roads in question as to improve traffic conditions. These qualitative improvements have so far failed to lead to a significant increase in the use of these infrastructures.

6 21 In Italy, aid was granted to a number of projects which consisted of improving country roads linking various farms. In the cases it examined in Molise, the Court found that very little use was made of the roads and that the investments had had no significant effect on the economic development of the region. Moreover, owing to lack of resources, the administrative authorities were unable to maintain the roads adequately. The main purpose of the projects was, in fact, to maintain agricultural and rural life and as such they could have received aid from the EAGGF Guidance Section (Council Regulation (EEC) No 1760/78 of 28 July 1978⁽⁵⁾). They were not part of a strategy to correct imbalances in economic development.

6 22 It can be concluded, in general, that even though the road projects undertaken can in some cases be justified by the existence of traffic bottlenecks, they were designed mainly to cope with normal increases in traffic and will have only a very long-term effect on regional economic development. In fact, these operations form part of ordinary policy on the development and extension of the road network rather than regional development policy.

Ports and inland waterways

Gross utilization

6 23 In the field of port projects, the ERDF has granted aid to operations designed in some cases to increase port

reception capacity and in others to adapt port facilities to the increasingly widespread use of larger ships. In most cases, it is evident that the gross utilization rate of the facilities is 50 % or higher.

6 24 The absence of a coherent, coordinated system of planning and management can hamper the optimum and efficient use of the installations receiving aid. For instance, the ERDF provided aid for the construction of new quays for the port of Termoli in Italy, without there being an overall operating programme covering the development of the various ports in the South Adriatic which could ensure specialization in the various types of traffic and reasonable utilization prospects for the installations. A similar situation in Scotland was also referred to by the Court in its annual report on the financial year 1983⁽⁶⁾.

6 25 Some additional investment is required to enable use of the new port installations and, in some cases, this is not available. For example, a multi-purpose breakwater was constructed in the port of Taranto, Italy, which, although completed several years ago, is used only in emergencies because the equipment necessary for its use is not available.

6 26 In other cases, the techno-economic context of the project has become out-dated and the utilization forecasts have become unrealistic. For example, the port of Cagliari in Sardinia was designed at a time when container-traffic was still expanding. Following delays in the execution of the work, the port is still not operational and it is estimated that its capacity utilization rate will be only 50 %, while the port installations already in existence in Sardinia are far from being fully utilized.

Net utilization

6 27 Net utilization of the projects was low in two thirds of the projects examined. They therefore had little impact on the development of shipping to and from the region in question and their contribution to regional development was small. However, the existence and operating of port infrastructures which received aid can, in some cases, create employment in the port in question.

6 28 A new port was constructed on the island of Juist in the FR of Germany to replace and double the capacity of another, older port which was suffering from silting-up and accessibility problems. Although this situation may have justified the decision to replace the existing infrastructure, the fact remains that the increase in capacity was not translated into an increase in traffic, which remained stable.

6.29. Other port projects have enabled the concentration of particular types of traffic on certain installations. For example, a specialized jetty for the handling of steel products was constructed in the port of Taranto in Italy. In France, a new quay for handling timber was constructed in the port of La Rochelle. Although these two installations are being used at virtually full capacity, their main effect has been to concentrate traffic previously divided among a number of installations on the new installations, without having a real effect on the total volume of traffic in the ports in question. The large degree of diversion revealed in the Court's examination considerably reduces the impact of these projects on regional development.

6.30. In other instances, the installations constructed were being used mainly for the benefit of regions other than the one in which they were located. This was the case with the Cagliari port mentioned above, which is expected to serve as a pivot for container traffic in the Mediterranean, an activity which involves very little added value. A similar exportation effect is to be seen in the case of the port of Sète (France). The impact of the considerable operations undertaken on the development of the region itself has been drastically reduced because the region is neither the origin nor the destination of over 65 % of traffic through the port. Furthermore, 40 % of the traffic was diverted from competing ports, in particular Bordeaux, which is also in an area eligible for ERDF aid and has itself received such aid.

6.31. To conclude, although satisfactory use of port installations constructed with ERDF aid is often apparently being made (gross utilization), their impact on regional development (net utilization) remains small.

Inland waterways

6.32. Two inland waterway projects have received ERDF aid in Languedoc-Roussillon. The first involves work on a section of the Rhône canal connecting the port of Sète to the Rhône with a view to making it accessible to larger ships. The impact of this investment will be felt only in the very long term, insofar as it can only really be used when the other sections of the canal have been increased to the same width. In the second case, seven locks were replaced by a new system for raising boats as part of the Canal du Midi modernization project. However, the project was abandoned by the French authorities, mainly because of the virtual disappearance of water transport, which could not compete with road and rail services on the same route. Furthermore, the project was terminated before the new elevation system was properly operational. ERDF aid has thus been granted to an investment which will scarcely be used and the impact of

the project on regional development will be virtually non-existent.

Water supply and sewerage infrastructures

Gross utilization

6.33. The Court examined almost 40 projects in the hydraulic sector. Half of these projects involved water production and supply and the other half were concerned with the collection and treatment of sewage. As a general rule, the object was to improve and increase the capacity of existing installations.

6.34. In more than 60 % of cases the gross utilization rate of the projects may be regarded as satisfactory, and five installations were even being utilized at full capacity in the years following their commissioning.

6.35. As regards the projects which were less utilized, this situation had arisen because the growth forecasts for population and economic activity in the regions served had proved to be rather unreliable. This type of situation was found in the case of water-supply projects like the Megget scheme in Scotland or the Castlebar scheme in Ireland, and sewage-treatment projects like those at Shanganagh in Ireland or Garnock in Scotland.

6.36. In other cases the projects are not being utilized, or are not being utilized very efficiently, because they lack the equipment necessary for full utilization. For example, two water-supply projects situated in the Alghero area of Sardinia continue to be unused because the structures which would make it possible to operate them have still not been built, due to lack of finance. In its annual report concerning the financial year 1984 (7) the Court observed that various water-supply networks in Sicily were still not operational because the funds needed to complete them were not available.

6.37. In Apulia, in Italy, the ERDF provided substantial financing to facilitate the distribution of water stored behind a dam on the River Sinni. More than two thirds of the water-distribution equipment installed remain unused and the dam supplies only 9m³/second, instead of the 38m³/second forecast, because the equipment needed for normal operation is not there. In the same area, there has been substantial water engineering work on the Locone. Although the dam which is the key to the entire project was completed in 1986, it is not yet operational and the date when it will be is still not known because the associated water supply structures have not been built. Instead of dissipating effort on programmes which

continue to be under-utilized, it would be better to proceed step by step, and to ensure that optimum use is made of the installations already completed.

Net utilization

6.38. In two thirds of the cases studied the net utilization rate of the projects was found to be less than 50 %. It is often higher in rural areas than it is in urban or industrial regions, where the projects are often intended to replace and improve existing infrastructure. This is true of the North-West of the United Kingdom, where the Hyndburn Valley sewer and the Martholme treatment works are heavily utilized, due to the simple fact that they are replacements and improvements of older installations which are no longer used. Similarly, in Ireland, the Ringsend treatment plant and the collection network in the Dublin area collect part of the water previously treated by other plants.

6.39. A similar example was found at Leixlip, likewise in the Dublin area, where Fund assistance was granted to another treatment plant, which collects water from older installations and new estates. The treatment capacity of the new plant is less than the quantity of sewage collected, so that at certain times the sewage remains untreated and is discharged directly, thus jeopardizing the project's effectiveness. Better programming of the work could have prevented the inconveniences of a situation of this sort.

6.40. In some cases the work has no related economic development objective. For example, a new sewage collection network and treatment plant have been built at Termoli in Italy. The use of these plants does not reflect any increase in production activity, because of the essentially residential nature of the areas served.

6.41. The majority of the projects in the hydraulic sector have been designed to remedy the general problems posed by the normal growth of demand in the water treatment or production sectors, rather than to make any contribution to regional development.

6.42. One barrage financed, on the River Ardèche in France, is also proving to be a project, which, although it is utilized, does not make any contribution to regional development. Its purpose is, essentially, to alleviate the damage caused by the water discharged as a result of the operation of the Montpezat hydroelectric plant. The dam was also intended to make it possible to improve the water supply and to permit the development of tourist facilities on the banks of the Ardèche. As regards these aspects,

which could have made a genuine contribution to the regional development plan, nothing has yet been started.

Energy sector

Gross utilization

6.43. In most of the energy-related projects the gross rate of utilization is more than 50 % and is clearly satisfactory. Nevertheless, in certain cases, even though the gross utilization rate is relatively high, the capacity which has been installed will not be fully utilized for a period of 25 to 30 years.

6.44. A rather low utilization rate was recorded in the case of a proposed very high voltage power line in Aquitaine, which duplicates an existing installation, and the amount of energy transmitted does not reflect any significant increase in regional demand.

6.45. In Scotland, in the Shetland Isles, the ERDF granted aid for a new thermal power station at Lerwick to supplement an old plant. It was found that the combined output was lower than that of the original power station, which shows that the new plant was not justified by the development of new activities.

Net utilization

6.46. From the net utilization angle, these projects, particularly those involving electricity production, show very low rates. This phenomenon is due to the fact that, because of the interconnection of the supply grid at national level, it is very easy for production to be exported from one region to another, so that only a very low proportion is consumed within the producer region.

6.47. In Greece the ERDF contributed towards the financing of three very large electric power stations (Assomata, Sfikia and Amyndeo). The production from these plants is essentially exported, via the national grid, to other regions and only 5 % of the energy produced is consumed within the regions where the plants are situated, which reflects a normal increase in demand. This leads to the conclusion, therefore, that the impact of the new plants on the development of regional activities will, in the main, be confined to the jobs required for the

extraction of the lignite used by the Amyndeo plant only, and furthermore there are significant delays in the creation of these jobs.

6.48. The ERDF has granted aid for a hydroelectric station as part of the Villerest barrage in France. In practice, the energy produced will be used to increase exports to other areas, so that the project has no multiplier effect as far as regional economic activity is concerned.

6.49. In conclusion, the low regional impact of the electricity-related projects is due to the fact that the policies applied are essentially sectoral and national in nature, leaving little room for regional concerns.

Industrial estates and advance factories

Gross utilization

6.50. In the field of industrial estates and advance factories, almost 40 projects were examined by the Court. In some cases they supplement the installations available within the estate, in others they involve the extension or creation of the area available for industrial use. It was found that in 40 % of these cases the occupation level of these industrial estates or factory units was less than 50 %.

6.51. In Ireland there have been many grants of aid for the construction of advance factories in the five counties the Court visited, although it is estimated, on the basis of information supplied by the local authorities, that over the country as a whole only 60 % of the available space is occupied. Of 15 installations of this type examined by the Court, it was found that only seven were fully utilized. Four others were totally unused, two of them for five years or more, and in other cases occupation was only partial, even though the installations had been complete for several years. These findings are akin to the observations which the Court has already made with regard to Ireland, in its annual report on the financial year 1983 ⁽⁸⁾.

6.52. In Luxembourg, the industrial estate at Bascharage continues to be substantially under-occupied, even though within a radius of less than 30 km there is another estate under construction and another which is more than 50 % under-occupied.

6.53. In Greece, the ERDF granted aid to more than double the area of the Patras industrial estate. The extension is virtually unoccupied and the level of occupation in the initial estate itself is less than 50 %. Similar situations were also observed in the case of an

industrial estate at Papenburg in the FR of Germany and another in Livingston New Town in Scotland.

6.54. As a general rule, no predictions are made as to the effect on employment of projects involving industrial estates or similar installations. In Italy, where forecasts do exist, the Court found that they had not been met in the nine estates under review. On the contrary, in two thirds of cases the number of jobs has actually decreased between the date of the aid application and the present time.

Net utilization

6.55. It should be noted that there is a considerable diversion effect, insofar as occupation of the industrial estates and buildings, and the associated employment, may simply result in the transfer of undertakings which are already established in the region, thus creating a corresponding reduction in their regional development impact. This type of situation was observed in Ireland, where all the undertakings established in the new workshops at Ballina come from the area, and of the 45 jobs provided in the complex 30 are simply the result of a transfer. Similar situations were found in the case of advance factories at Sligo and Westport. In the Netherlands, the occupation rate in the Leeuwarden complex is 35 %, but only 4 % of that represents activities which have been established or newly created in the region. A similar situation has also arisen in the FR of Germany in the case of the Osthafen industrial zone at Oldenburg, occupation of which is mainly due to the fact that enterprises have transferred from neighbouring areas.

6.56. Although in many cases the occupation levels of industrial estates or similar installations may be considered to be satisfactory, the management authorities should ensure that they are focal points for the creation of new activities in the region, rather than a simple regrouping of existing activities on certain sites. These are the only terms on which such installations will be able to make an effective contribution towards reducing unemployment.

Telecommunications

6.57. The review of utilization rates for telecommunications projects covered capital projects in Greece, France and Ireland. They may be divided into two broad categories: the provision of transmission lines, and switching installations. The projects in the first category cover works carried out in response to the normal evolution of demand and the gross utilization rates for

them are satisfactory. Capacity in the second category, on the other hand, is relatively under-utilized.

6.58. Although capital investment in telecommunications does make the regions concerned more attractive and is necessary for regional development, the investment programmes are usually prepared at national level with the aim of meeting the normal growth in demand. ERDF aid for the projects examined in the three countries concerned has practically no incentive effect as far as the regional investment programmes drawn up by the competent national organizations are concerned.

EFFECTS ON PRICES AND WAYS OF MANAGING INFRASTRUCTURES

6.59. During its enquiries the Court was concerned to discover whether the ERDF aid was reflected in the cost of the services provided by the new infrastructures. A reduction in such costs may in fact alleviate the handicaps experienced by the less-developed areas and, by stimulating demand, may increase the rate of utilization of the infrastructures.

6.60. ERDF-aided infrastructures, particularly in the transport sector, are normally made available free of charge to users, who thereby benefit from the advantages which they provide without having to pay for them. For example, a new road saves time and allows more economic use of vehicles, new port installations may make it possible to reduce turn-around time, etc. These influences may stimulate regional economic development, but the Court's examination of the effects of the works on net utilization rates did not produce any conclusions as to whether this was what had happened.

6.61. Other forms of infrastructure are managed on a commercial-type basis by public or quasi-public bodies, so that the costs normally have to be covered by the revenue from the services provided⁽⁹⁾. In this case, the aid makes it possible to reduce the cost of financing the installations and may be reflected in the prices charged, thus having an incentive effect on the trend of demand. In fact it is rare for the grant of ERDF aid to have any direct influence on prices.

6.62. The fact that there is no effect on prices may be explained by the absence of a policy of regional price variations. In the case of telecommunications and energy, price policies are decided at national level, in accordance with the profitability criteria applied by the management organizations, and are applied on a more or less uniform

basis throughout the national territory. This was the situation found in Greece, France and Ireland. Under these conditions the prices charged do not have any kind of incentive effect which might stimulate regional demand. The question arises as to whether the ERDF ought not to require beneficiaries to pass on the benefits of the aid via price reductions in the regions.

6.63. In other cases prices are established in terms of extra-economic considerations, virtually independently of any economic calculation. For example, in the south of Italy the consumer price of water is approximately 50 % of cost, which obviously eliminates any prospect of profitability. It must even be asked whether the Community aid is not serving as an encouragement to put off corrective measures which will prove to be inevitable.

6.64. In the areas of ports and industrial estates, financial management is most often the concern of autonomous public authorities. In certain of these cases, pricing policy is based on considerations of inter-regional competition. This was the case with several industrial estates in the Netherlands.

6.65. Sometimes aid is granted for projects which are broadly certain to be profitable. In a situation like this, the ERDF contribution becomes an additional gain, without any great impact either on prices or project utilization. For example, Manchester Airport, which was developed with ERDF aid, distributes dividends to the various organizations which combined to create it. It might be asked whether there was any justification for granting a Community subsidy to this project, where a loan would probably have been more suitable.

6.66. The Court found that there is an effect on prices only where the aid is received by the management organization and replaces more expensive forms of finance, thus making it possible to reduce the capital costs and thereby attain the objectives of financial profitability more easily. Rare situations like this were recorded in the case of the organization responsible for water management in north-western England, or for energy production in Scotland.

6.67. In conclusion, in the case of forms of infrastructure which are managed according to commercial criteria, it was found that generally ERDF aid has only a very indirect and very small effect when prices are set. In order to facilitate optimum allocation of Community resources, criteria should be laid down to define the most suitable forms of aid in terms of regional development imperatives: either capital assistance from the ERDF or loans from other Community financial instruments⁽¹⁰⁾.

CONCLUSIONS AND RECOMMENDATIONS

6.68. The considerations set out above show that a significant proportion of the ERDF-aided infrastructure investment is not optimally utilized. This observation confirms a similar finding made in a study⁽¹¹⁾ on infrastructure commissioned by the Commission.

6.69. As regards its impact on regional development, as reflected in the net utilization rates, it appears that in the majority of cases these rates are less than 50 %, and often remain very low, even after the initial period following the commissioning of the infrastructure.

6.70. This situation demonstrates that although the presence of infrastructure is a necessary and essential condition of regional development in itself, it is far from being enough.

6.71. The under-utilization and the low regional impact can often be explained by the absence of any real regional development programme to associate projects with precise objectives. The lack of forecasts on which to base investment decisions and the inadequacies of physical and financial programming in carrying out the works also play a considerable role. Moreover, too little attention is given to the incentive effect of Fund operations on economic activities in the regions themselves, the only effect which can effectively reduce disparities in regional development. This applies equally to programmed financings, which must form part of more general programming if they are to have optimum effect.

6.72. One of the consequences of this situation is that the funds employed in carrying out the projects show a very low rate of return compared with the cost of the financial resources committed. This lost profit amounts to an implicit increase, which may be extremely large, in the cost of the investment.

6.73. The need for optimum appraisal of the regional impact of infrastructures requires the development of a method of project selection which takes into account the prospect of utilization, which in turn ought to be evaluated in terms of the incentive effect on the exploitation of the economic potential of the regions in question. The Commission's method of appraisal ought to define more precisely and investigate more thoroughly the factors required for analysis of the expected utilization rates of projects.

6.74. As regards commercial-type infrastructure, care must be taken to ensure that ERDF aid is reflected in prices in the regions in a way which improves the competitiveness of those regions. Furthermore, with a view to the optimum allocation of resources, there should be increased coordination between the ERDF and other Community financial instruments, so that Community intervention in the form of a loan or subsidy is then best suited to the real needs of project financing.

6.75. In conclusion, in view of the fact that infrastructure projects are the Fund's main item of expenditure, they must be given maximum attention, so that Community action to reduce disparities in regional development is effective and has the optimum effect. In this respect, the Commission should ensure that the Member States forward to it within the statutory time limits the reports and other communications required for implementation of the regional development programmes and the utilization of the principal completed infrastructure works. The forwarding of these documents should be the occasion for developing a method of measuring and evaluating investment utilization with a view to assessing its impact on regional development. The information to be obtained by an analysis of this kind should also make it possible to improve methods of examining aid applications and provide improved guidance for future decisions in order to increase their efficiency.

SPECIAL REPORT ON THE INTEGRATED APPROACH TO COMMUNITY FINANCING OF STRUCTURAL MEASURES

6.76. On 19 May 1988, the Court adopted a special report on the integrated approach to Community financing of structural measures⁽¹²⁾. The report takes stock of all the initiatives which had been taken on the basis of an integrated approach (the Naples operation, the Belfast operation, integrated development programmes and preparatory pilot measures) prior to the funding of the integrated Mediterranean programmes.

6.77. The Court found that, even taking into account their experimental nature, the operations involving an integrated approach which were examined in the special report on the whole led to disappointing conclusions. The integrated aspect of the ventures was confined to a few references or formal methods of presentation which

appeared in the financing decision and were usually lost from sight at the implementation stage. In administrative practice, management of the integrated measures is in fact reduced to management of supplementary appropriations allocated for that purpose by special regulations or particular decisions.

6.78. At Community level, the procedures for managing the various financial instruments have not been adapted to accommodate the needs and objectives of an integrated approach. In practice, the schemes financed are confined to the one aspect (regional, agricultural, supplementary appropriations under Article 550) in whose context they arose; at best, in the absence of any appropriate form of organization and documentation, they simply aim to group together, on a geographical basis, the aids allocated by the various Funds.

6.79. At local level, the administrative authorities which are more specifically intended to bring about integration play only a marginal rôle, without any real influence on the use of the appropriations, a situation which obviously limits what the Commission can do.

6.80. The absence of a suitable accounting framework means that information on the real content and precise state of progress of the initiatives financed is lacking. In the case of the Naples operation, and in view of the large amounts of Community aid involved, there is a permanent administrative system which provides periodic summary documents. However, these statements lack precision and any interpretation of them is open to question; at best, they merely group together data on the sources of finance on a geographical basis, without establishing in any way the consistency of the schemes or the coordinated use of resources. As regards the various other integrated operations, there is a lack of comprehensive accounting documents and this is also true of the progress reports and, *a fortiori*, the monitoring of the schemes and evaluation of their results. The same deficiencies exist at Community level, which is even less acceptable, as the Commission ought to be in a position to

present summary accounts for all the financial transactions relating to each integrated scheme.

6.81. Nor is it possible, on the basis of the partial data available, to detect any acceleration in the progress of the work or any improvement in the rate of utilization of the appropriations. On this point, the state of the investments examined was entirely comparable to that of the other projects usually financed by the Funds. On the qualitative side, the decisions and programmes provide very little concrete indication as to the expected improvement in the impact of intervention and any spin-off which might be expected. The observations made in various sections of the special report show that greater attention should be paid to the impact of intervention.

6.82. A recent report by the European Parliament⁽¹³⁾ on budgetary control of the effectiveness of the structural Funds, emphasized that, in the case of integrated measures, it was not yet possible to speak of unity at the legal and operational levels, which meant that the decision-taking procedures were extremely confused and resulted in the adoption of simple 'declarations of intent', the implementation of which was linked to compliance with the provisions governing each of the instruments.

6.83. The Court is of the view that the integrated measures label and the financing that goes with it cannot be awarded indiscriminately. At the very least, they require the scheme in question to be the object of proper, comprehensive programming and to be implemented in accordance with a precise set of procedures covering the full content of the operation.

6.84. If the administrative action is to be effective, it needs a form of organization which is in harmony with the objectives pursued. Such a form of organization has been largely wanting as far as the measures looked at in the report are concerned. In the preparations for the integrated Mediterranean programmes, the Commission has defined and set up a series of procedures which are intended to solve some of the difficulties encountered in the past. All the same, care must be taken to ensure that

these procedures are actually implemented, so as to avoid any repetition of the above-mentioned shortcomings, especially as regards the coordinated management of Community aid and its follow-up. The reform of the

structural Funds which is at present under way should also make it possible to improve the conditions for Community intervention in this field and increase its effectiveness.

(¹) OJ L 73, 21.3.1975, p. 1.

(²) OJ L 35, 9.2.1979, p. 1.

(³) OJ L 169, 28.6.1984, p. 1.

(⁴) OJ L 340, 6.12.1983, p. 24.

(⁵) OJ L 204, 28.7.1978, p. 1.

(⁶) OJ C 348, 31.12.1984, paragraphs 7.27 — 7.29.

(⁷) OJ C 326, 16.12.1985, paragraphs 7.16 — 7.23.

(⁸) OJ C 348, 31.12.1984, paragraph 7.36.

(⁹) See also paragraphs 9.10 and 9.11 of the Court of Auditors' annual report concerning the financial year 1986, OJ C 336, 15.12.1987.

(¹⁰) See also paragraph 9.7 of the Court of Auditor's annual report concerning the financial year 1986, OJ C 336, 15.12.1987.

(¹¹) The impact of infrastructure on regional development. Final revised report; Infrastructure Study Group; Commission of the European Communities; 1986, p. 404.

(¹²) OJ C 188, 18.7.1988, p. 1.

(¹³) Doc A2-159/87 and the Resolution published in OJ C 318, 30.11.1987, p. 126.

CHAPTER 7

European Social Fund

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INTRODUCTION

7.1. On 10 December 1987 the Court of Auditors examined a special report on the national and Community systems and procedures relating to the management of the European Social Fund (ESF). This report was then adopted on 10 March 1988 and was published in the

Official Journal of the European Communities on 16 May 1988 ⁽¹⁾. The conclusions of this report are set out in paragraphs 7.4 to 7.9.

7.2. In addition, the Court looked at one particular aspect of the social field, concerning preparatory studies and pilot schemes (see paragraphs 7.10 — 7.55). 1987 was

⁽¹⁾ The footnotes are listed together at the end of the chapter.

in fact the year during which the last measures of this type came to an end; that being the case, it is clearly a useful and necessary exercise, on the one hand to identify, in all these schemes, the most striking aspects of the management of the funds and, on the other hand, to summarize those features that were of greatest significance and likely to clarify the development, at operational level, of the new types of assistance set up by the ESF.

7.3. Furthermore, paragraphs 7.56 — 7.62 deal with the 'burden of the past' as far as the ESF is concerned. These observations result from an audit of the accounts and from the findings made when inspecting a representative sample of files.

NATIONAL AND COMMUNITY SYSTEMS AND PROCEDURES RELATING TO THE MANAGEMENT OF THE EUROPEAN SOCIAL FUND

7.4. The following paragraphs set out the conclusions of the special report referred to in paragraph 7.1 of this chapter.

Main weaknesses noted

7.5. There is still some considerable ground to be covered before the Fund becomes an effective financial instrument, enjoying dynamic management and control.

7.6. As regards the preparation procedures concerning regulations, decisions and guidelines for the management of the ESF, the following shortcomings were found:

- (a) the choices made when the decisions relating to the intervention of the Fund in favour of various social groups were taken, or when the present Fund was adopted, were not based on cost-benefit analyses of the current policy alternatives or on an analysis of the projects implemented within the context of the policy laid down;
- (b) the choice of multiple objectives — either permanent or short-term — in view of the reduced volume of ESF appropriations ('4 % of the total public expenditure of the Member States on all aspects of aid or social assistance') can only result in a thin sprinkling of financial resources over the whole range of objectives, which is not very effective;
- (c) recruitment, or the suitability of professional training for the employment market, are not always the main criteria for selecting measures;

(d) the Community carries out hardly any activities of its own and only participates by granting financial aid to professional training and recruitment measures set up in the Member States and subsidized by the public authorities to an extent which is at least equal to the Community's financial contributions. These measures have thus usually already been taken care of by the national systems;

(e) the system set up involves the processing of too many files, so much so that it becomes almost impossible to manage them properly.

7.7. The following weaknesses in the management at Community level should also be mentioned:

- (a) the excessively imprecise nature of the criteria governing admissibility, eligibility and priority contained in the implementing rules;
- (b) the absence of a common approach for a series of concepts in the area of employment;
- (c) the excessive formality of the processing procedure adopted by the ESF departments for applications for assistance and payment;
- (d) the absence of any systematic assessment of the projects co-financed by the ESF;
- (e) the inadequacy of the system of on-the-spot checking carried out by the Commission departments, which instead rely on certification by the Member States.

7.8. On account of such deficiencies in the Commission's management, whatever its policy, it is impossible to root out certain weaknesses in the Member States' operations. Thus the following shortcomings, in particular, were noted at national level:

- (a) absence of a specific department in each Member State, specifically responsible for monitoring the expenditure incurred under the projects approved by the Fund;
- (b) differing interpretations by the Member States of certain Community rules, which are, moreover, not very explicit;
- (c) the national certification procedures are heterogeneous, opaque and unreliable. Possibilities for improvement.

Possibilities for improvement

7.9. Without prejudice to the provisions which may be adopted with regard to the tasks assigned to the structural Funds and the coordination of their activities, it would be possible, in the short term, to turn the ESF into a more effective financial instrument which would be easier to monitor if:

- (a) the Commission, within the framework of the guidelines for the management of the Fund, realigned its objectives, so as to finance a distinctly smaller number of operations whilst keeping the volume of aid at its present level;
- (b) the admissibility of the applications was subject to rules which made it possible to reject any application that was insufficiently justified;
- (c) the criteria for eligibility and priority were made clear and precise and were strictly applied;
- (d) precise instructions on the information to be supplied on the composition of each amount of expenditure were sent to the Member States;
- (e) the Commission's powers of control were fully and systematically used and provided with sanctions which were effectively imposed;
- (f) penalties were applied to organizations which, with the aim of obtaining cash facilities by means of the payment of an advance, blatantly overstated their estimated expenditure;
- (g) the types of control which should accompany the national certification procedure were stipulated.

PREPARATORY STUDIES AND PILOT SCHEMES

7.10. Preparatory studies and pilot schemes are defined by Article 7 of Council Regulation (EEC) No 2396/71 of 8 November 1971⁽²⁾, which was amended by Council Regulation (EEC) No 2893/77 of 20 December 1977⁽³⁾. The reason for carrying out preparatory studies and pilot schemes is to enable the Member States and those responsible for operations to choose the most effective form of aid and to organize the implementation of it to the

best effect. They are also intended to guide the Council and Commission in their choice of future areas of intervention and to promote a more effective use of the existing forms of ESF aid. Preparatory studies and pilot schemes constitute a special part of the area covered by the ESF, whilst providing at the same time a paradigm of the functioning of the Fund as a whole. All promoters, both private and public, have access to Community financing. National public financing is not necessary: all that is required is the authorization of the Member State on whose territory the project is to be carried out. The ESF's financial contribution may not exceed 50 % of the actual cost and is not linked to any category constraints or to any geographical restrictions. The aims to be attained are couched in general terms, so that the widest possible variety of approaches may be adopted in order to achieve them.

7.11. The sphere of application of the preparatory studies and pilot schemes is virtually identical with that of the ESF as a whole, but they differ from the other ESF measures by virtue of the contract linking the body responsible for carrying out the measure with the Commission. This contract establishes a direct link between the Commission and the body responsible for carrying out the measure and makes it possible to define more precisely the content of the measure, the manner in which it is to be carried out and its objectives.

7.12. Since 1984, preparatory studies and pilot schemes have been replaced in the new ESF by specific measures which have received a 25-fold increase in the volume of (differentiated) appropriations allocated to them. These specific measures are an extension of the preparatory studies and pilot schemes and are 'carried out with the aim of furthering the implementation of projects of an innovative nature'. They are different from the common arrangements in that they can last for as long as three years rather than just one year.

7.13. The Court has carried out a systematic inspection of the files for all preparatory studies and pilot schemes which have been the subject of a Commission decision since 1980 and which have been closed at intervals up until 1987.

Rate of utilization of payment appropriations

7.14. 43.9 % of the annual payment appropriations granted for preparatory studies and pilot schemes during the period 1980-87 (14,37 Mio ECU) were utilized. On 1 February 1987, 32 pilot schemes still had to be concluded, i.e. roughly one tenth of the total of about 340 preparatory studies and pilot schemes which have been granted Community aid since 1971. During 1987, final payments were made in respect of 14 files and 17 files were closed by decommitting the whole amount or the balance of the available appropriations committed and by issuing a recovery order. One final pilot scheme should be completed in 1988 when the final payment is made. Some of the files (seven of them) could have been closed in 1985

or 1986 with a final payment and others (four files) have been pending since 1982 or 1983.

Selection

Eligibility

7.15. The eligibility of aid applications is subject to the rules governing the ESF. There is, in addition, a quantity criterion. Article 7 of Regulation (EEC) No 2396/71 ⁽²⁾ stipulates that the number of jobs involved may not exceed 30. This number had been exceeded in one fifth of the projects audited. In many cases, the Commission was aware of this situation at the time the application for aid was made.

Priority

7.16. The guidelines for the management of the ESF lay down the priority criteria for the classification of files. The criteria are that the operations should be innovatory in character, create jobs, improve the quality of training and, in particular, make it multi-skill, and be potentially applicable to other parts of the Community, and priority is given to operations that satisfy the largest number of these criteria.

7.17. The Commission added certain criteria for 1983, which was the last year of application of the old ESF, by granting priority to files relating to the following aims: youth unemployment, the creation of small craft undertakings, the creation of jobs for women in occupations where they are under-represented, training to acquire new skills corresponding to technological changes, training of instructors and operations which have already been accorded priority in different areas of Fund intervention.

7.18. In view of the fact that the appropriations available were usually more than enough to satisfy the needs expressed in the applications, these criteria have not played a truly selective role. Thus, the prospects for job creation are often not even mentioned in aid applications.

7.19. This also explains why the content of the criteria is not precisely defined. For example, the expression 'innovatory character', the first criterion of priority for pilot schemes, which has become the criterion of eligibility for specific measures in the new Fund, has not been formally defined.

Decision

7.20. The decision to grant aid is usually taken during the three months following a meeting of the Committee, according to the same procedure as for other ESF aid measures.

7.21. The terms of the decision have not been updated and contain factual elements which in some cases date back several years. In one in six cases, making amendments to decisions constitutes additional work which could be avoided. The series of decisions taken in respect of one project were taken in order:

- (a) to correct a material error;
- (b) to amend the description of the promoters;
- (c) to change the dates of execution, after the event.

7.22. It is not always clear that Community funding has been used to help in initiating a project. In two fifths of the files, execution of the project had started before the Commission decision was taken. It has even been known for a scheme to have already been completed when the Commission decided to grant it assistance.

Implementation of the decision

Contract

7.23. Contracts implementing Commission decisions are signed on average five months (between two weeks and 15 months) after the decision has been made. In 90 % of cases, the contract is signed after the pilot scheme has begun. In one case, the contract was signed three months after the pilot scheme had ended. It is clear from such examples that the contracts have become a merely formal requirement.

7.24. Additional clauses are rarely added to contracts, even when the Commission's decision is amended. In the case of one pilot scheme, the Commission took a decision — 27 months after the contract had ended — which amended not only the dates of commencement and termination of the contract but also its duration, without any additional clause being added to the contract.

7.25. The contracts and their annexes are, in most cases, unclear as regards the actual content of the preparatory studies and pilot schemes. For example:

- (a) the place where they are to be carried out is not always stated;
- (b) the objectives determined by the priorities are not always clearly indicated: target figures for job creation are rarely given, even though job creation appears in the guidelines as the second criterion for the selection of projects;
- (c) quantification of training in terms of time and cost is the exception rather than the rule;
- (d) the work schedule refers in most cases simply to the dates for the submission of reports to the Commission and only rarely to the expected completion dates of the various stages;
- (e) the objectives set out in the description of the projects are usually defined in vague, general terms, without concrete references;
- (f) in most cases, only a very brief description of the budget is provided, with no direct reference to the various stages of the scheme and no mention of accounts;
- (g) the standard contract never requires the contractor to submit an interim statement of expenditure, no matter what the duration of the pilot scheme may be and even in cases where an interim report is to be provided. In the case of one of the projects audited, which lasted two years and for which half-yearly reports were to be submitted, the Commission even requested the contractor to stop annexing a financial report as it was considered to be 'unnecessary', whereas, if it had taken the trouble to read the first interim report, the Commission would have discovered that the contractor was including in the costs of the project the wages of trainees who had not yet been selected.

Interim report

7.26. For projects lasting more than one year, the contract usually provides for the submission of an interim report, which is the pre-condition for the disbursement of an interim payment usually amounting to around 30 % to 40 % of the initial commitment. The interim report, which also serves as a progress report, is not subject to any rules regarding either its content or its size. It is left entirely to the discretion of the contractor. In practice, it

varies from two to 100 pages. It is supposed to be read by the managing department, which sends a note to the Authorizing Officer stating that the interim report has been approved and that the second instalment provided for in the contract should be paid.

7.27. There is no approval procedure, either for interim reports or, moreover, for final reports. In none of the files on the projects audited, for which interim reports were to be submitted, is there mention of any comment whatsoever having been addressed to the contractors. However, the managing department should have used the examination of these reports as an opportunity to ask the contractor various questions, in particular when it appeared, for example, that the number of beneficiaries was higher than the maximum eligible or that the objectives pursued had been changed.

7.28. The Court has observed that often the sole purpose of the interim report is to extract a payment. In cases where the contractor failed to submit an interim report, the management department rarely insisted on having one, or sometimes did so only after a year's delay.

Final report

7.29. On termination of the project, the contractor sends the Commission first a draft and then the final version of a report on the execution of the project, a summary and a financial statement. The deadline by which they must be submitted is laid down in the contract, but it is rarely observed: there is always a delay, which can range from one month to several years. The reports and summary notes have to be translated into one or two languages other than that of the contractor, and translating these documents further delays submission of the final report. Furthermore, the cost of translating, printing and dispatching the report (50 or 75 copies, depending on the number of languages into which it has been translated) absorbs a significant part of the ESF aid.

7.30. The contents of the completion reports, which vary from 20 to 400 pages, are not particularly homogeneous and in general provide very few concrete details as to how the schemes were carried out and even less idea of their practical results. The most frequent conclusion is that the scheme should be continued and further funding provided.

The Court's findings

7.31. On-the-spot checks by Court officials brought to light serious deficiencies in most of the preparatory

studies and pilot schemes. Owing to their brevity, the financial statements sent by the contractors and accepted by the Commission do not in general enable these deficiencies to be pinpointed.

Financial statements

7 32 The financial statement is left to the initiative of the contractor. He is simply recommended to follow the same presentation as that of the budget attached to the contract and to explain any differences. Given the brevity of the presentation of the budget (for example, the budgets for pilot schemes lasting for three years can consist of five lines), it follows that the financial report is also, more often than not, brief and it is not possible to distinguish which items of proposed expenditure are eligible. Furthermore, the financial report only occasionally contains a statement of revenue and funding.

7 33 The Commission does not require any certification of financial reports. It does not even require the stamp and certification of the internal auditor who is generally responsible for the contracting body's accounts.

Closure of files

7 34 The absence of contractual constraints does not encourage the closure of files: no sanction is provided for in the case of delay, non-performance or only partial performance of a contract. If contractors fail to provide a schedule for the schemes for which assistance is granted, they are sent only a belated reminder of their contractual obligations. Some files remain open for several years before being closed.

7 35 The lack of follow-up in financial management results in commitments being kept artificially alive which are then completely cancelled after two, three, four or five years. Likewise, contractors who had obtained advance payments and did not start the programme envisaged were able to keep the funds for a number of years without being called upon either to account for them or to repay them. In cases where contractors were asked to repay funds advanced to them, no thought was given to charging interest on these funds, which were thus granted free of charge. Late requests for the repayment of funds have sometimes not been honoured because the contracting bodies had, in the meantime, disappeared.

Expenditure not accounted for

7 36 In four fifths of the cases audited, the contractor had not kept separate accounts for the expenditure involved in the pilot scheme. Consequently there is great difficulty in identifying this expenditure and in particular in pinpointing those fixed costs that are likely to be charged as direct costs of the execution of the project.

7 37 A number of the contractors inspected were unable to provide supporting documents. Where they were supplied, the Court noted that in many cases

- (a) the date, the nature of the services, the person providing the services and the connection with the pilot schemes were not stated,
- (b) the invoices were not receipted,
- (c) some documents were issued by the contractor himself, or by his partners.

Ineligible expenditure

7 38 In 75 % of the projects audited, some ineligible expenditure was submitted to the Commission as part of the actual cost of the project. In the main, this involved

- (a) expenditure prior to or after the period in which, according to the contract, the project was to be carried out,
- (b) expenditure relating to the use of equipment. Since the notion of 'teaching equipment' is not clearly defined, contractors tend to include under this heading the most diverse kinds of purchases (sound equipment, cameras, video cassette recorders, etc.) and charge the total cost to the pilot scheme, whereas they are in fact investments, for which only the element of depreciation should be taken into account. Furthermore, some of these investments were made at the end of the period of contract,
- (c) expenditure whose connection with the preparatory studies and pilot schemes is not clearly established, such as the purchase of curtains or commemorative medals or the cost of repairing cars involved in accidents. Sometimes the link with the pilot scheme is only superficial. For example, one contractor charged against a pilot scheme the wage costs of his secretariat (43,9 % of the project expenditure) on the pretext that

he had had to employ temporary secretaries to replace secretaries who had gone on training courses. On closer examination, it emerged that the contractor had been using a team of temporary secretaries long before the pilot scheme had begun, and he was unable to prove that new temporary secretaries had been taken on for the pilot scheme;

- (d) over-estimated expenditure, in particular as regards depreciation: in one pilot scheme, depreciation of buildings was calculated on the basis of 10 % of the construction cost, although the ceiling was fixed under national legislation at 3 %. What is more, only a small part of the building space was used for the purposes of the pilot scheme.

Expenditure not borne by the contractor

7.39. Expenditure which the contractor did not have to bear is also frequently submitted as a cost and accepted as such by the Commission. For example, one contractor requested permission from the Commission to depreciate not only the equipment purchased during the pilot scheme but also the stock of equipment already in existence at the start of the scheme. The Commission gave its assent without carrying out any form of investigation. However, the Court's audit revealed that the accounts of the contractor in question contained no details of any depreciation; the equipment in question was not the contractor's property and he had played no part in its purchase. It had been placed at his disposal free of charge by the public authorities, with whom, moreover, he had a contract to supply training services.

7.40. Similarly, in a number of cases the contractor included among the costs of the pilot scheme the wage costs of the beneficiaries and/or their instructors, without mentioning that the sums received by these persons had been disbursed in the form of unemployment benefit or had been paid by the employers; the ESF aid was collected by the promoter, who kept it instead of passing it on to the companies which had actually borne these costs. For example, one contractor charged against the pilot scheme the wage costs of over 100 trainees, although they were in fact paid by the companies; not only did these companies not receive any ESF assistance, but they had to pay a financial contribution to the contractor, which the Commission did not take into account when closing the file.

7.41. Some contractors have also been known to submit real costs inclusive of all taxes, even though they afterwards obtain a VAT refund. The Commission has no special provision for such cases: the contract contains no

reference to the special fiscal status contractors or their sub-contractors may enjoy.

Excess funding

7.42. The contract usually contains a provision stating that Fund assistance may not exceed 50 % of actual expenditure and that the remainder should be borne by the contractor. However, contractors rarely submit their finance plans. When they submit them with their initial applications for aid, they are usually still at the fund-seeking stage. The granting of ESF aid tends to open the door to other sources of funding and, consequently, external funding frequently arrives after the decision to grant aid. Depending on who is supplying the funds, the sums granted have to comply with different allocation criteria and different conditions, in particular regarding objectives, duration, dates of commencement and termination, the number of recipients and costs. The contractor therefore has to keep various special files simultaneously, which he does not communicate to the other partners. Since the contract signed by the Commission lays down no obligation to submit details concerning other sources of finance, it is left to the contractor's discretion. When, however, these other funds are taken into consideration, it becomes apparent that the ESF has contributed too much.

7.43. This situation of excess finance, which applies to half of the preparatory studies and pilot projects audited on the spot by the Court, also occurs in cases where the returns and revenue generated by the pilot scheme are not taken into account when ESF aid is paid. This applies to the following in particular:

- (a) the returns generated by pilot schemes which aim to promote economic activity;
- (b) the financial contributions paid to the contractor by trainees.

7.44. One Member State did indeed make enquiries in order to establish which partner had provided finance for an operation over and above the costs involved and was entitled to recover all or part of its contribution. In this case, it is evident that the Commission did not consider other revenue and sources of finance. Similarly, it has not informed the Court of the action taken following the observations communicated to it after on-the-spot audits which made it possible to identify these excess finance situations which should have resulted in action to recover the sums paid out for which there was no justification.

Circulation of final reports and results

7.45. The 50 or 75 copies (depending on whether translations into two or three languages are required) of the report on each preparatory study or pilot scheme which the Commission receives from the contractors are essentially intended to be sent to the press and information offices set up in the Member States, where they can be consulted by potential contractors. The Court was unable to find any trace that these reports had been circulated. They cannot even be found in the Commission library in Brussels; one study, of which the Commission financed a run of 1 000 copies, is similarly missing. None of the contractors whom Court officials met during audit visits had consulted the reports on previous pilot schemes and none of them knew that these reports were available, or where it would have been possible to consult them. The contractors said that they had not been informed of related or parallel preparatory studies or pilot schemes by the Commission.

7.46. A circular setting out the main elements of the summary reports on several preparatory studies and pilot schemes was prepared and sent to potential users, such as ministries, training organizations and promoters. It was last known to have been circulated in mid-1981.

7.47. This method of dissemination was abandoned in favour of a method intended to reach a wider public, in the form of the new periodical, *Europe sociale* ⁽⁴⁾, which, to judge by the few issues which have appeared, gave a very brief outline (on half a page) of a few pilot schemes. The presentation adopted in this periodical fails to give readers real information on the actual cases dealt with and makes no reference to more detailed sources of information.

7.48. Each year the ESF annual report presents the preparatory studies and pilot schemes to which the Commission has decided to give assistance, both in global financial terms and with details of the topics dealt with. A one or two line summary is given for each pilot scheme. There is no comment, however brief, on the results obtained from the completed preparatory studies and pilot schemes. During the period under review there was no report, communication or proposal to either the Commission or the Council regarding the results of preparatory studies and pilot schemes.

7.49. Seminars have been organized by the Commission in order to assess the impact of the ESF and to promote exchanges of know-how. The last seminar to deal with preparatory studies and pilot schemes was held in Mulhouse in October 1981. Three pilot schemes, as well as other ESF-financed projects, were subjected to analysis during the seminar. The effect of these seminars is limited on the one hand by the very small number of schemes discussed, and on the other by the very restricted nature of the selection in terms of the numbers and origins of

participants, as well as by the fact that the results are not distributed.

7.50. Despite a range of studies on the development of methods of evaluating ESF-financed projects, no method for evaluating the results of preparatory studies and pilot schemes has been developed so far.

7.51. The on-the-spot audits gave rise to the following observations:

- (a) more than one third of the projects inspected were not innovatory, either because the measure covered by the pilot scheme had already been effected by the same promoter before the pilot scheme started, or because it already existed in the promoter's immediate (geographical or vocational) environment, or the training was quite simply sub-contracted to an agent whose normal programme included such training;
- (b) the level of job creation is very modest: according to the contractors, approximately 12 % of the trainees were employed in new jobs. Moreover, there was no check on whether the jobs really had been created.

7.52. In the opinion of the managing department at the Commission, the best way of giving concrete form to the results of a preliminary study or pilot scheme is to continue to finance the operation which has been started, or to duplicate it with the assistance of the ESF. Out of all the contractors monitored, 12 % were carrying out a second pilot scheme or had submitted new applications for assistance for pilot schemes and one quarter obtained subsequent ESF financing, either because the operation which had been initiated with the pilot scheme had been renewed with aid from the Fund, or because the Fund had intervened to supplement the financing for the pilot scheme.

7.53. The projects which received continued ESF funding were characterized by the following:

- (a) the pilot schemes were concerned with specific training;
- (b) the promoter had a stable infrastructure and adequate own resources in terms of premises, staff and training resources;
- (c) the promoter had a thorough knowledge of the sector concerned and of the environment in which he was operating.

7.54. In some cases the continuation of the measures initiated by the pilot scheme is more limited, given that, for example, it involves the promoter in providing training for the staff which he recruits. In that case, the measure comes to an end once the recruitment stage is concluded.

Finally, some projects which were financed as pilot schemes benefited from an adaptation of the terms of eligibility where one of the conditions for the award of ESF assistance had not been satisfied.

Conclusions

7.55. In the opinion of the Court, the Commission has not drawn from the experience acquired in the conduct and management of preparatory studies and pilot schemes all the necessary lessons for the continuation and development of measures in the experimental area of the ESF, especially as regards:

(a) the definition of the experimental field:

- (i) the lack of a precise definition of the concept of an innovatory project leads to a proliferation and scattering of projects, with no consistency between them;
- (ii) the total absence of a Community programme on common lines of research on social matters, which would have made it possible to arrive at solutions to a number of training problems which are common to all the Member States;

(b) financial management: it should be pointed out that:

- (i) the mobilization of the available appropriations continues to be arbitrary and inadequate and does not allow any serious forecasting;
- (ii) the absence of any physical and financial monitoring of project progress (no text makes any provision for monitoring measures which may take three years to carry out); this absence of monitoring also results in the continuation of the practice of freezing funds on projects which will not be carried out or only partially carried out;
- (iii) the absence of any possibility of either appraising or checking the eligibility of the expenditure submitted in the request for final payment other than on the spot;
- (iv) the lack of any systematic review of other sources of finance;

(c) the results: attention should be drawn to the absence of:

- (i) any method for evaluating the results of preparatory studies and pilot schemes and, therefore, of specific measures;
- (ii) coordination of projects, as there are no Community programmes and there is a shortage of coordination among those carrying out the projects, before, during and after execution of similar experimental measures financed with the assistance of the ESF;
- (iii) adequate circulation of results;
- (iv) effective exploitation of these results, both at the level of measures to be initiated in the social field proper and at the level of drawing up rules and priorities specifying ESF intervention.

OUTSTANDING COMMITMENTS

7.56. Since 1986 the Commission has cleared committed appropriations more quickly, thus following the recommendations made by the Court in its annual reports on the financial years 1981 ⁽⁵⁾, 1985 ⁽⁶⁾ and 1986 ⁽⁷⁾.

7.57. Whilst the total for commitments outstanding at 1 January 1986 ⁽⁸⁾ was 2 832,1 Mio ECU (including 1 022,3 Mio ECU for the old Fund), during 1986 the Commission:

- (a) paid against this total 1 067,5 Mio ECU, i.e. 321,8 Mio ECU for the old Fund and 745,7 Mio ECU for the present Fund;
- (b) released 411,8 Mio ECU for re-use against the commitments for the financial year 1985;
- (c) released for cancellation — against the commitments for financial years prior to 1985 — 477,3 Mio ECU (i.e. 410,8 Mio ECU for the old Fund and 66,5 Mio ECU for the present Fund).

7.58. Against the total of 2 038,0 Mio ECU (264,0 Mio ECU for the old Fund and 1 774,0 Mio ECU for the

Table 7.1 — Social Fund: changes in outstanding commitments

Financial year	Commitments outstanding at the beginning of the financial year	Clearance of commitments outstanding at the beginning of the financial year						New commitments for the financial year	Payments against new commitments for the financial year	New commitments outstanding at the end of the financial year
		Payments	Released for reinvestment against commitments for the previous financial year	Released for cancellation against commitments for financial years prior to the previous financial year	Exchange-rate adjustments	Commitments outstanding at the end of the financial year				
1986	Total of which: old Fund new Fund	1 067,5 321,8 745,7	411,8 411,8	477,3 410,8 66,5	106,7 25,7 81,0	768,8 264,0 504,8	2 523,0	1 253,8	1 269,2	
1987	Total of which: old Fund new Fund	966,5 70,0 896,5	460,1 460,1	214,7 168,5 46,2	33,9 7,3 26,6	362,8 18,2 344,6	3 523,6	1 748,7	1 774,9	
1988	Total of which: old Fund new Fund									

(Mio ECU)

(Mio ECU)

present Fund) of commitments outstanding at 1 January 1987 ⁽⁹⁾, the Commission during the financial year 1987:

- (a) paid 966,5 Mio ECU, i.e. 70,0 Mio for the old Fund and 896,5 Mio ECU for the present Fund;
- (b) released 460,1 Mio ECU for re-use against the commitments for 1986;
- (c) released for cancellation — against the commitments for financial years prior to 1986 — 214,7 Mio ECU (168,5 Mio ECU of which was for the old Fund and 42,2 Mio ECU for the present Fund).

7.59. At 31 December 1987, 2 137,7 Mio ECU remained to be paid, i.e. 18,2 for the old Fund and 2 119,5 for the present Fund, as shown in **Table 7.1**.

7.60. It thus appears that the winding-up of the old Fund was virtually finished as at 31 December 1987.

7.61. The Court very much welcomes the fact that the files have been closed more quickly, thus giving greater transparency and reality to the commitments still outstanding. It notes, however, that in some cases the commitments should have been released for cancellation a long time ago. Furthermore, other files could have been closed sooner had the Commission fixed a deadline by which beneficiary organizations were to send the additional information requested.

7.62. Assessment of the 400 or so files from the old Fund, which were closed following payments and cancellations of commitments effected in 1987, shows that the majority are measures which were the subject of approval decisions in 1982 or 1983. Examination of a sample of these files revealed that the consideration given to individual applications for final payments did not diverge from the customary procedure ⁽¹⁰⁾. The survey also showed that the cancellations of commitments were justified, either because the commitments did not cover eligible or priority measures, or because the beneficiary organizations did not comply with procedures established by the Commission as regards applications for final payments.

(1) Special report on national and Community systems and procedures relating to the management of the European Social Fund, OJ C 126, 16.5.1988.
 (2) Council Regulation (EEC) No 2396/71 of 8 November 1971, OJ L 249, 10.11.1971, p. 54.
 (3) Council Regulation (EEC) No 2893/77 of 20 December 1977, OJ L 337, 27.12.1977, p. 1.
 (4) Journal of the Directorate-General for Employment, Social Affairs and Education, which has been published three times a year since 1984 and has a circulation of 7 000: 1 300 copies in German, 3 000 in English and 2 700 in French.

(5) Annual report of the Court of Auditors on the financial year 1981, OJ C 344, 31.12.1982, paragraphs 6.8 — 6.11.
 (6) Annual report of the Court of Auditors on the financial year 1985, OJ C 321, 15.12.1986, paragraphs 8.19 — 8.26.
 (7) Annual report of the Court of Auditors on the financial year 1986, OJ C 336, 15.12.1987, paragraphs 2.55 — 2.58.
 (8) Includes exchange-rate adjustments amounting to 106,7 Mio ECU.
 (9) Includes exchange-rate adjustments amounting to 20 Mio ECU.
 (10) Paragraphs 3.22 — 3.27 of the special report referred to in footnote (1).

CHAPTER 8

Research

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INTRODUCTION

8.1. This chapter is concerned with the procedures for evaluating the Community scientific and technical research programmes. For the first time, the Court has devoted particular attention to the Commission's procedures for evaluating research programmes and ensuring that the evaluations are properly exploited, so as to produce a steady improvement in research as an ever more effective instrument in the attainment of the Community's economic and social objectives.

8.2. In so doing, the Court's intention was not to provide an assessment of the essential utility of either the research or the specific programmes. Furthermore, the Court's review did not cover either the Commission's internal management structures (e.g. the Joint Research Centre) or its procedures for ensuring that the research results are published and utilized effectively.

The structure of Community research

8.3. Community research is carried out through a framework programme for research and technological development activities. The first and second framework programmes covered the periods 1984-87 ⁽¹⁾ and 1987-91 ⁽²⁾. Each Community framework programme incorporates all the specific research programmes for the period under consideration. The specific programmes, in their turn, are sub-divided, sometimes into sub-programmes and always into a larger number of individual projects. The specific programmes are carried out by various means, but principally by:

- (a) direct action (research carried out within the four Joint Research Centre (JRC) establishments);

- (b) indirect action (research carried out by means of shared-cost contracts with organizations situated in the Member States);

- (c) concerted action (research carried out and financed by national organizations but coordinated by the Commission).

Evaluation by the Commission

8.4. Until 1978 the evaluation of Community research programmes was mainly carried out by the Commission itself and by a series of Advisory Committees for Programme Management (ACPMs), made up of national experts. In 1979, however, the Commission started to submit proposals for the setting-up of a system to evaluate the results of research programmes. This led, in 1983, to the publication of a Community plan of action ⁽³⁾ for evaluation which was intended to play a key role in the 1984-87 framework programme ⁽¹⁾. As a result of this action plan, the Commission's evaluation activities have developed in the following manner:

- (a) internal evaluation methods have been reorganized, primarily by the replacement of the ACPMs ⁽⁴⁾ by a smaller number of Management and Coordination Advisory Committees (CGCs) ⁽⁵⁾ and, in the case of the Joint Research Centre, by the creation of a Board of Governors and a Scientific Council ⁽⁶⁾;
- (b) in 1986, the Commission submitted an internal evaluation of the implementation of its research programmes during the period 1983-85 ⁽⁷⁾ to the Parliament and the Council;
- (c) a system of external, retrospective (ex-post) evaluation of specific research programmes by panels of

⁽¹⁾ The footnotes are listed together at the end of the chapter.

experts was established under the coordination of a specialist division within the Commission which was independent of the programme managers. Thus, despite the shortage of budgetary resources, 27 evaluation reports covering most areas of research had been published, or were in the course of publication, by the end of 1987;

- (d) in 1987, the Commission communicated to the Council a second Community plan of action⁽⁸⁾, relating to the evaluation of research for the period of the new framework programme (1987-91)⁽²⁾. This plan, like the actual framework programme, envisages that all future specific research programmes (usually lasting four or five years) will be subject to an external independent evaluation and, in addition, that the Commission itself will promote research into the methodology of evaluation by means of a special programme.

The approach adopted by the Court

8.5. In order to assess the Commission's procedures, the Court selected four areas of research administered by the Directorate-General for Science, Research and Development (DG XII) which had been the subject of *ex post* evaluation reports by groups of external experts between 1985 and 1987. The evaluations were selected from the latest exercises for which reports were available. As at the end of 1987, no evaluation exercises had been completed under the new evaluation plan⁽⁸⁾. The four areas concerned were as follows:

- (a) raw materials (two indirect action programmes, covering 1978-85);
- (b) environmental research (five direct, indirect⁽⁹⁾ and concerted action programmes, covering 1976-87);
- (c) non-nuclear energy (four direct and indirect action programmes⁽¹⁰⁾, covering 1979-87);
- (d) safeguards and fissile materials management (two direct action programmes, covering 1980-87).

8.6. The total allocation approved by the Council for these 13 programmes is 707,4 Mio ECU, of which 176,4 Mio ECU (appropriations for commitment) were available for the financial year 1987 only (i.e. 21,5 % of Chapter B 73).

8.7. The Court's examination of the Commission's procedures and of the above specific research programmes covered the following separate, but complementary, phases of the evaluation process, each phase containing both an *ex post* and an *ex ante* element:

- (a) formulation and evaluation of the 1984-87 Community framework programme⁽¹⁾ (paragraphs 8.8 to 8.15);
- (b) definition of specific programmes (paragraphs 8.16 to 8.33);
- (c) selection of proposals for cost-sharing projects (paragraphs 8.34 to 8.58);
- (d) monitoring and internal evaluation of specific programmes and projects (paragraphs 8.59 to 8.70);
- (e) external evaluation of specific programmes (paragraphs 8.71 to 8.84).

FORMULATION AND EVALUATION OF THE IMPLEMENTATION OF THE COMMUNITY FRAMEWORK PROGRAMME 1984-87

Formulation and structure of the framework programme

8.8. The first framework programme for research, development and demonstration activities covered the period 1984-87⁽¹⁾. It laid down eight broad scientific and technical objectives which were to be achieved by combining various specific programmes. Each specific programme was to contribute to the pursuit of one or more scientific or technical objectives. In 1983 the Commission's intention was to group specific research programmes together within research action programmes (RAP), which, together, were to provide the means of implementing the framework programme. The objective of this new structure, which was to create an intermediate programming level between the framework programme and the specific programmes, was to increase the efficiency of evaluation exercises, by providing a precise definition, not only of the programme objectives against which the results would be measured, but also of the socio-economic priorities from which the programmes derive. It was also envisaged that the Council would adopt research programmes at RAP level and not as specific programmes.

8.9. Originally, the RAP were supposed to group research projects in the same field together under single management, irrespective of the methods of implementation. The attempt was abandoned for various reasons, such as timetabling differences, the overlapping of certain programmes and the fact that the departments of the Directorate-General for Science, Research and Development (DG XII) continued to be broadly structured in terms of separate management for each specific programme. By introducing the RAP, the Commission was claiming the right to initiate a function without creating the corresponding managerial bodies. The institution of a coordinating officer for each RAP was superimposed on a departmental structure which remained unchanged. The RAP were therefore inevitably unwieldy from the point of view of management and bound to remain more of an idea than a reality. They were therefore never adopted as such by the Council, and the adoption of specific programmes thus continued on an individual basis.

8.10. As a result, coordination of the JRC programmes and the corresponding indirect action programmes continues to be a problem. The scheduling is different, as is the duration, so that, inevitably, they have to be formulated separately. Although the Commission has tried to ensure that there is at least one integrated *ex post* evaluation of the various programmes — both direct and indirect action programmes — within the same field, it is difficult to find any point at which this exercise could conveniently be carried out simultaneously for the various programmes, as they are not synchronous (see paragraph 8.77 below). The Commission proposes in future to use various advisory committees to improve the coordination between direct and indirect action programmes. It must be emphasized that an approach of this kind, however necessary it may be, is not enough. Without going back to the RAP, the Commission itself must ensure that the different ways in which the framework programme objectives are implemented are complementary and coordinated.

8.11. Furthermore, the Commission should continue to try to achieve a significant reduction in the number of programmes to be submitted to the Council (in 1987, 32 specific programmes which had been approved by the Council were in progress), as this would eliminate the congestion at the preparatory body stage and facilitate the desired aim of coordination.

8.12. In this way, the Commission would also make it easier to evaluate results within a single field, despite the varieties of methods used.

Evaluation of the implementation of the framework programme

8.13. The first Community plan of action for the evaluation of Community research and development programmes (1983-86) ⁽³⁾ essentially envisaged an evaluation of each of the specific programmes. It did, however, refer to combined evaluation, especially at RAP level. As the management structures for the latter were purely a matter of form (see paragraph 8.9), the period 1984-87 was marked by the absence of any organized procedure for evaluating results at the level of broad framework programme objectives.

8.14. In 1986, however, the Commission produced a report ⁽⁷⁾ on the state of progress of the 1984-87 framework programme, with the aim of providing support for a proposed new 1987-91 framework programme. The report includes an examination of the eight broad objectives of the first framework programme and a brief appraisal of the main weaknesses found during that period. The Court noted the following omissions in this progress report:

- (a) the report was drawn up by an administrator in one of the managing departments, and not by a panel of independent experts. The report is seldom backed up by independent evaluations of specific programmes. Even where such evaluations did take place, it does not always set out the main recommendations and conclusions contained in them;
- (b) only exceptionally (the fusion programme) is it possible, on the basis of the figures given, to assess the extent, quality or effects of the results obtained. There are rarely any comparisons between the initial position, the objectives and the results, whether from the scientific or the economic angle;
- (c) greater emphasis should be given to the lessons learnt from past experience. There are no explanations as to why programmes have been abandoned, which makes it difficult to perceive the pattern of development;
- (d) too often there is no mention of the value of actual or expected results from the Community point of view, and the distribution and, most important, the use made of them, are also ignored.

8.15. The framework programmes constitute the key instrument for the medium-term planning of scientific objectives and financial aspects. It is essential for the Commission to pay more attention to improving its assessment of the implementation and current validity of

the 1987-91 framework programme, as the Council Decision concerning this framework programme⁽²⁾ requires it to do during the third year of execution. In the Court's opinion the evaluation of the framework programme should cover the influence which it may have had on the preparation and adoption of specific programmes, compliance with both scientific and financial guidelines and actual or expected results of all the component specific programmes.

DEFINITION OF SPECIFIC PROGRAMMES

Form of preparatory documents

8.16. For the Commission, the ultimate aim of the preparatory work is to submit a programme proposal to the Council for a decision. In order to facilitate that decision, the proposal is given the precise textual form of a decision, with citations and recitals and with the provisions broken down into articles and a scientific annex. It is published in this form in the Official Journal, C series, so that there is, therefore, formal consistency between the programme proposal and the programme decision. Only the explanatory memorandum which accompanies the proposal is omitted in the final decision. In order to keep this ultimate aim in view, it would be sound practice for the Commission to round off the draft proposal at a very early stage with a text in a strict legal form, and the entire document could be produced in a series of different versions with all the necessary developments.

8.17. The progress of the preparatory texts is particularly difficult to follow in the case of the 1985-88 shared-cost research programme in the field of non-nuclear energy⁽¹¹⁾. There was a succession of several documents, of varying length, content and plan, during 1982. None of these was in the form of a decision, not even that of December 1982, although it was described as a 'preliminary draft proposal' and provided the basis for the Directorate-General for Research's consultation of 10 or so other directorates-general at the Commission in May 1983.

8.18. The progress of the work on the formulation of the 1986-90 shared cost research sub-programme in the field of environmental protection⁽¹²⁾ shows — in part — that it is possible to proceed differently. As soon as the first structured preparatory document had been drawn up by DG XII during the last quarter of 1984, i.e. before the first consultations, ideas on the subject of the sub-programme

had been given concrete form as an annex headed 'Scientific content of the programme', which was very close in form (and substance) to the scientific annex contained in the decision.

Efficiency of consultation procedures

Unwieldy nature of consultation procedures

8.19. The Commission holds numerous consultations. As from the draft proposal stage of the indirect action programme in the field of the environment (last quarter of 1984), the Directorate-General for Research consulted the JRC, the legal service, nine directorates-general at the Commission and the CGC. In the case of the non-nuclear energy indirect action programme, 10 directorates-general were consulted. At the proposal stage these same programmes gave rise to official consultation of the Scientific and Technical Research Committee (Crest), the Economic and Social Committee and the Parliament. In the case of the environment programme, the Parliament delivered its opinion after obtaining the opinions of three of its committees (on the environment, industrial policy and research). The Council called on the work of its research group and Crest, which has already been mentioned. The JRC programmes, in their turn, give rise to consultation of the Scientific Council of the JRC, the competent CGC, the JRC Board of Directors, the Scientific and Technical Committee (CST) or Crest, the Economic and Social Committee and the Parliament.

8.20. These consultations take up a considerable amount of time. The consultative procedure took up about eight months at the draft stage in the case of the environment programme and six months in the case of non-nuclear energy. The consultations on the proposal took a further 10 months, in the case of the environment, and 16 months in the case of non-nuclear energy. The consultation procedures more than doubled the time required for preparation of the decision.

Limited results of consultation procedures

8.21. It seems that the institutions which were consulted had little to say regarding the actual object of the programme, confining their comments to the financial aspects. In the case of the sub-programme in the field of environmental protection⁽¹²⁾, the amendments intro-

duced by the various consultation procedures were relatively minor, apart from the cutback in the overall budget which was imposed by the Council. They are minor not only in relation to the official proposal of July 1985, but even in relation to the first draft proposal dating from the last quarter of 1984. Of the 20 research topics, 16 were formulated in the decision in the same terms as they were in the draft proposal. Only 12 % of the sub-themes were introduced or amended at one stage or other of the procedure. Often the amendments were minimal, on points of form rather than of substance. Only the strictly political institutions (Parliament and the Council), which, incidentally, put their wishes into concrete form by means of written amendments, succeeded in getting their way.

8.22. Apart from the addition of a hydrocarbon sub-programme, the scientific annex to the non-nuclear energy shared-cost action programme did not undergo any amendment between the proposal and the decision ⁽¹¹⁾ stages, despite all the consultations.

8.23. In 1982 the competent ACPM ⁽⁴⁾ delivered a detailed opinion on the JRC draft programme in the field of non-nuclear energy for the period 1984-87. Following the cancellation of the major 'Super Sara' project in particular, the Commission submitted to the Council a very different proposal, which diverged from the opinion given by the ACPM in 1982 on several important points. There was, however, no preliminary consultation of the ACPM by the Commission on what was a substantially new proposal.

Consequences for the programme adoption date

8.24. For all the above-mentioned reasons, radical simplification of the consultation procedures is necessary. In addition to the delay factors which are specific to the Council, the unwieldy nature of the consultation procedures slows down the adoption of programmes. The fourth environment research programme (indirect action) ⁽¹²⁾ was adopted on 10 June 1986, whereas it was to have commenced on 1 January 1986. The Council decision adopting the non-nuclear energy research programme 1985-88 (indirect action) ⁽¹¹⁾ is dated 12 March 1985, whilst the previous programme ⁽¹³⁾ ended officially on 30 June 1983. Admittedly, the Commission did publish a proposal on 16 June 1983 and the subsequent delays were largely due to budgetary causes which had nothing to do with the programme formulation procedure. Nevertheless, 16 June was really too late. To the visible delay, reckoned from the end of the previous programme, must be added the period of programme launch, which is irreducible, between the adoption of the programme and the signing of the first contracts (eight months in the case of the environmental protection sub-programme). In the Court's opinion, programme decisions should, for this reason, be adopted a good six months in advance of the period covered.

Definition of the scientific content of programmes

8.25. The scientific content of the Council decisions adopting programmes appears to be fairly detailed and precise, but the precision is partly illusory. In reality, although the themes mentioned constitute a framework which is not to be exceeded, there is on the other hand nothing to prevent the Commission from initiating any action relating to certain themes, deliberately or in the absence of satisfactory proposals. For example, mention of the research sub-themes in the environmental protection sub-programme for the period 1986-90 ⁽¹²⁾ is 'of an indicative nature', which authorizes the Commission both to add some and to abandon others.

8.26. This freedom of manoeuvre for the Commission is even greater in that the main themes themselves are expressed in very broad terms — for example, 'air quality', 'solar energy' — and more especially because the Council allocates the overall budget only in a few large blocks — in the case of non-nuclear energy between nine broad topics, in the case of the environment, between the three sub-programmes. The detailed allocation between the sub-themes is therefore left open. In view of all these forms of flexibility, one might ask how much of the idea of medium-term programming of research by the Council actually remains.

Objectives or fields of research

8.27. In their research-related documents, the Commission and Council frequently use the word 'objectives'. In accordance with the Single European Act (Article 130 I), the intention of the 1987-91 framework programme ⁽²⁾ is to lay down 'the scientific and technical objectives of its [the Community's] activities' (seventh recital of the Council Decision of 28 September 1987 concerning the framework programme). In the specific programmes the headings in the scientific annex are sometimes called objectives — for example in the 1985-88 indirect action programme in the field of non-nuclear energy ⁽¹¹⁾ — sometimes 'themes' or 'topics' for research — as in the 1986-90 indirect action programme in the field of the environment ⁽¹²⁾ — or 'areas' of research — as in the 1986-89 materials programme ⁽¹⁴⁾.

8.28. In the present state of definition of the specific programmes, the term 'objectives' is a misnomer. An objective is a verifiable result which is to be achieved within a specified time limit. There is nothing of this kind in the programmes, however, only areas of research, with no real objectives set and no mention of any means of measuring the results.

8.29. Although in 1984 and 1985 the Joint Research Centre did make a substantial effort to establish detailed objectives and to initiate proper planning of research as part of its 1984-87 programme ⁽¹⁵⁾, as far as the specific programme for non-nuclear energy was concerned it did not lead to identification of the results to be achieved, nor to the definition of quantitative and qualitative indicators by which to assess those results.

8.30. This uncertainty as to the objectives to be attained results in uncertainty as to the financial resources needed. The overall budget for the 1986-89 materials programme ⁽¹⁴⁾ was reduced from 110 to 75 Mio ECU between the initial proposal and the final decision, without any corresponding reduction in the list of themes — on the contrary Parliament extended the latter. The Council similarly cut back the overall budget for the 1986-90 environment programme ⁽¹²⁾ from the 115 Mio ECU proposed by the Commission to 75 Mio ECU, without any reduction in the content of the programme other than the major technological hazards. The same comment applies in the case of the 1985-88 indirect action programme in the field of non-nuclear energy ⁽¹¹⁾, where the scientific definition has remained unchanged despite a drastic reduction in the resources granted, from 379 Mio ECU in the proposal to only 175 Mio ECU in the decision.

8.31. Nevertheless it is very desirable for programmes to be defined in terms of objectives. Firstly, the programming would, in fact, have far more concrete significance, giving a more precise circumscription to the measures to be undertaken, and would be more binding on the teams of researchers responsible for implementing them. Secondly, it would then be possible to establish a more significant relationship between the measures defined and the resources fixed. Finally, the existence of objectives would allow better control over the execution of the work and permit proper evaluation of results by reference to the objectives set.

8.32. Although the fixing of objectives is desirable in itself, would it be impractical in reality? The Court is aware that there is a risk that imprudent attempts to quantify the unquantifiable and to demand verifiable results in fields where this logic is difficult to apply may have negative effects in the form of an over-simplistic definition of objectives and may be an artificial exercise in reducing the complexity of the field to be explored. In addition, the further one moves from applied research in the direction of fundamental research the more difficult it is to envisage the nature of the results. Whilst being well aware of all these obstacles, the Court recommends that the Commission should step up its efforts to define Community research programmes in terms of real objectives.

8.33. Examination of the programme of direct action in the field of non-nuclear energy shows that it is possible to identify and quantify the results achieved in this area of

research. To a large extent, the conclusions of the report on the nature and quality of research out-puts at the Ispra establishment, which was published in March 1987 by the Prospective Studies Division of the Ispra establishment, could be extended to all the JRC's activities. The JRC should therefore adapt its programme formulation and definition procedures accordingly. The same guideline is applicable *mutatis mutandis* to the indirect action programmes and at the very least to the projects which comprise them.

SELECTION OF PROPOSALS FOR SHARED-COST PROJECTS

Introduction

8.34. In order to prevent any misunderstanding in relations between the Community and researchers, the fields of research to be covered and the selection criteria must be clear, public and stable. Once the proposals have been received, a second condition of their success is that the work of selection should be carried out well and efficiently. The observations which follow will examine whether these conditions are being satisfied at the moment.

Acceptable themes for research

8.35. The list of research themes adopted does not remain constant throughout the procedure. When the Council cuts back the overall budget allocated to a programme or sub-programme, sometimes drastically so, it may leave the scientific annex intact. But the Commission is then obliged to curb its scientific ambitions. Some fields of research for which provision has been made in the programmes are omitted from the calls for proposals or from the detailed notices sent to applicants. After five calls for proposals spread over the period between March 1985 and August 1987 ⁽¹⁶⁾, no action was taken on four of the 37 themes in the non-nuclear energy programme and there were heavy cutbacks on others. The call for proposals in respect of the climatology sub-programme ⁽¹⁷⁾ ignored two of the themes in that sub-programme; the detailed notice which was sent to applicants concerning the environmental protection sub-programme ⁽¹⁸⁾ ignored six themes and explicitly excluded two. Themes omitted from calls for proposals but negotiated privately have not been included in the above survey.

8.36. The wording of certain research themes or sub-themes changes from one document to another. For example, in the French version of the calls for proposals '*Production et gestion des gisements*' becomes '*L'aménagement et la gestion des réservoirs*', '*L'économie de l'énergie dans le secteur des bâtiments*' becomes '*Economies de l'énergie dans l'habitat*', etc. The computer-coded list of main research themes for the environmental protection programme differs somewhat from that contained in the call for proposals. Strict programming depends on consistency of headings and wording.

Criteria for evaluation of proposals

8.37. The formulation of the selection criteria is similarly sometimes ambiguous or inconsistent. The criteria are found:

- (a) in the Commission's internal rules for programme management (August 1986) ⁽¹⁹⁾;
- (b) in a Commission decision dated 19 November 1986 (file document without reference);
- (c) in the call for research proposals;
- (d) in the explanatory notes included in the files sent to applicants.

8.38. In order to implement these criteria the Commission uses proposal evaluation forms, in which there are traces of these criteria. These various documents do not tally very satisfactorily.

8.39. The criteria adopted in the evaluation forms relating to non-nuclear energy do not include the scientific status of the applicant (which is, however, referred to in the call for proposals), the cost-benefit ratio of the proposal, or possible industrial applications.

8.40. In order to prevent administrative costs from soaring as the result of an excessive number of small projects, the internal rules (August 1986) provided that the Director-General for Research was to set a (limited) percentage threshold for projects which would receive an annual Community subsidy of less than 80 000 ECU. The decision of 19 November 1986 raised this threshold to 100 000 ECU, and narrowly defined the exceptional circumstances under which the subsidy could be lower. In

reality, the optimum size for projects does, in fact, vary greatly from one field to another, so that it is difficult to make it the subject of a generalized decision. It would be better for DG XII to retain the principle of a subsidy threshold, but to adjust it in terms of the specific programme concerned.

8.41. The evaluation form for proposals relating to environmental protection does not faithfully reflect the criteria applicable. The form does not mention the 80 000 ECU criterion, nor that of feasibility, nor that of international collaboration.

8.42. Research proposals in the field of environmental protection are classified according to three different scales. The competent departments of DG XII used four levels of classification (high priority; could be financed if possible; could be considered after renegotiation; to be rejected). DG XII consulted the Directorate-General for the Environment, Consumer Protection and Nuclear Safety (DG XI) on the basis of a simplified form containing only three assessments, with quite different wording from that found on the form used by DG XII. And the CGC ⁽⁵⁾ was required to classify the proposals on yet another scale with five degrees with different wording and a different classification. Disparities of this kind are not conducive to uniform classification of proposals.

8.43. In the environment, non-nuclear energy and materials programmes there is no kind of chart or procedure to indicate how the transition is to be made from analytical appraisal, criterion by criterion, to global assessment, with proposals classified into three or four categories. It is therefore difficult to judge how the criteria were applied or how they were weighted.

Publicity

8.44. The Commission publishes its calls for proposals only in the Official Journal of the European Communities. It could with advantage take the initiative of publicizing them more widely in the main technical and specialist periodicals.

8.45. Moreover the selection criteria are not published in full. For example, in the calls for proposals in connection with the non-nuclear energy programme there is no mention of the criteria of cost/benefit and time/benefit ratios. The calls for proposals and the explanatory notes relating to the environment programme are similarly silent as regards the criterion of feasibility of proposals and, with the exception of the environmental protection sub-programme, the criterion of the scientific status of the proposer and the quality, originality and utility of the proposal.

The criterion of the socio-economic impact of the proposals

8.46. The research proposals rarely indicate who the users of the results will be and when they are expected to be implemented. They are circumspect as to the expected socio-economic impact of the proposed work. If the Commission were to require applicants to draw up proposals which were better documented in this respect, or even to provide evidence of a business sector's interest in their proposal in the form of industrial sponsorship, it would simplify the evaluators' task.

Extent of the work of proposal appraisal

8.47. The Commission received no less than 1 700 scientific proposals in connection with the 1986-90 environmental protection sub-programme. The responsible department at the Commission comprised seven evaluators, who divided the proposals between them, and even called in consultants for some themes. In spite of this, it took about a year (from October 1986 to October 1987) to complete this considerable task. The competent CGC gave its opinion on these 1 700 proposals in eight meetings of, sometimes one, sometimes two days. During any one of these sessions the CGC might have to examine several hundred proposals (almost 600 on 5 and 6 May 1987), some of which would have to be re-examined during several subsequent meetings. In the case of approximately 85 % of the proposals the CGC opinion was given without discussion.

8.48. The ACPM responsible for the 1982-85 materials programme⁽²⁰⁾ examined the 325 proposals relating to the programme in a period of five days. Working conditions of this kind cannot be regarded as healthy.

Concentration of selection work in a small space of time

8.49. The work of assessing the proposals under the sub-programme on environmental protection was therefore concentrated into a period of one year, for a programme spread over five years. This excessive concentration is due not only to the scheduling of programmes, but to a whole series of causes. Firstly, the environmental protection sub-programme was essentially the subject of a single call for proposals, with only two final dates, very close together, for the submission of proposals. The first contract was not signed until March 1987, 14 months after the theoretical start of a programme which itself was adopted by the Council almost

six months late. Furthermore, in order to offset the reduction in appropriations imposed during the conciliation procedure with the Parliament, the Council agreed — and the President of the Commission gave a written promise to that effect to Parliament — that the entire programme would be committed in two years (1987 and 1988). These various factors meant that the programme was launched under excessively severe time pressure.

8.50. In order to remedy this, it is essential that programmes should be approved well in advance of launch, each programme being broken down into several calls for proposals spread over a period of time, as was done in the case of the non-nuclear energy programme, and even, for certain programmes, that the threshold for the minimum financial contribution to projects should be raised slightly in order to reduce the numbers.

Value of consultation activity

Consultation of DG XI

8.51. However justified consultation of Directorate-General XI (environment) on the draft environment programme may appear to be, since that programme is to provide the scientific bases for the Community's environmental policy, it is debatable whether it should be consulted on the value of proposals. It was consulted on the basis of reduced proposal files and the assessment form which it had to fill in was greatly simplified. Moreover, it gave a reply on only a low percentage (approximately 20 %) of proposals. In the Court's opinion, consultation does not have any meaningful contribution to make under these conditions.

Consultation of the CGC

8.52. Although the internal rules for programme management⁽¹⁹⁾ (paragraph 252) require the Commission's opinions on the proposals to be communicated to the CGC⁽⁵⁾, this is not advisable, as it encourages the CGC to model its opinions on those of the Commission. In the case of the non-nuclear energy programme, the Commission communicated its views on the proposals to the CGC in writing beforehand. In the case of the environment programme, on the other hand, the competent department of the Commission was afraid that the CGC would endorse all its assessments without sufficient critical appraisal and decided that it would only communicate them orally during the meeting. This is a significant advance, but the Commission should envisage going further and totally refraining from communicating

its opinion, confining itself to providing the CGC with any necessary technical assistance. It is the Commission which requests the opinion of the CGC and not the reverse.

8.53. The minutes of the CGC meetings show that the latter only assess the scientific value *per se* of proposals, without relating it to their cost. Clearly, where there is a limited budget the Commission itself must pay more attention to the cost/benefit ratio of proposals.

8.54. The environment CGC cannot have applied the selection criteria rigorously in view of the fact that its 'generosity' resulted in the formulation of opinions in favour of financing to an amount representing approximately three times the available resources. Out of a total of some 1 700 proposals, the CGC had delivered favourable opinions on approximately 600 by the end of 1987, and, of these, 200 proposals will in fact be funded. If selecting means eliminating, it is clear that the main part of the work of discrimination is less in the transition from 1 700 to 600 proposals than in the transition from 600 to 200 proposals. The latter selection is made by the Commission alone. This tendency towards excessive 'indulgence' was noted also in the case of the non-nuclear energy CGC.

8.55. The primarily national motivations of each of the CGC delegations conflict with the scientific concerns which they all share, at the risk of obscuring the criteria which govern their choices in practice.

Calls for proposals or calls for tenders?

8.56. The expression 'call for tenders' is justified only if tenders are actually requested in respect of specific projects, as is customary in industry and civil engineering. More often than not this is not the case with research, where the tenderers themselves are required to define their proposals in their own terms, in the context of each field of research, taking into account only a few fairly general standards. The Commission is therefore right to use the different term 'call for proposals'.

8.57. This freedom to make proposals was a dominant feature of the environment programme with the exception of noise nuisance and the effect of pollutants on health. In the case of non-nuclear energy, on the other hand, the number of real 'projects' was greater ('Building 2 000', prototypes for large wind turbines, pilot installations for biomass conversion, solar map of Africa, etc.).

8.58. Just as, at the level of programme headings, the question arises of whether to define real 'objectives' or simply 'fields of research', so with calls for proposals it is possible to specify precise 'projects' or to allow complete

freedom of proposal. The same reasons which are advanced in support of real objectives may also be used in favour of 'projects'. It is clear that from the point of view of evaluation the better approach, where possible, is to make genuine calls for tenders on specific projects.

MONITORING AND INTERNAL EVALUATION OF SPECIFIC PROGRAMMES AND PROJECTS

Role of the advisory committees

8.59. In a survey of its evaluation activities over the period 1983-85⁽⁷⁾, the Commission states that the internal evaluation of research activities has been strengthened by the creation of the CGCs⁽⁵⁾ and the JRC Scientific Council. The Court considers that this result has not really been achieved:

- (a) the last solar energy ACPM⁽⁴⁾ meeting was held in December 1983 and the first meeting of the non-nuclear CGC⁽⁵⁾ which succeeded it was held in January 1985. There was therefore no advisory committee monitoring of direct action in this area of research during 1984. There is no evidence that the non-nuclear energies CGC has examined the activities of the JRC in this area in detail since 1985. More particularly, in November 1985 a JRC proposal for a new programme, for the period 1987-90, (which was not taken up by the Commission) was agreed by the CGC in question, but there is no record of any comment or discussion in the minutes. As regards the new framework programme (1987-91), in 1986 several of the delegations to this CGC expressed their regret that the Commission had not consulted it during preparation of the draft;
- (b) during programme execution a substantial number of cost-sharing contracts are sometimes substantially modified as to scope, duration and the amount of funding. However, examination of the minutes of the raw materials CGC between October 1982 and December 1986 showed that it had devoted little attention to the monitoring of the current programme and had not received adequate information on the modifications made to some projects. If these committees are to perform their role properly, it is essential that they be provided with full and up-to-

date information on the state of programme execution and major project modifications.

thereafter was discontinued.

8.60. In its plan of action for evaluation of research activity for the years 1987 to 1991 ⁽⁸⁾, the Commission refers to the key role of the JRC Scientific Council in the internal evaluation procedure. However, in its October 1987 document entitled 'A new outlook for the JRC' ⁽²¹⁾, the Commission proposes the abolition of the Scientific Council and envisages the creation of an advisory committee for each scientific institute within a proposed new structure for the JRC.

8.61. The nature and value of the advisory committees' contributions to the monitoring and internal evaluation of research programmes have varied greatly between 1983 and 1987. Consequently, the Court considers that the future rôle of all the advisory committees needs to be examined carefully, particularly in the light of the reorganization of the JRC and the Commission's own plan for evaluation between 1987 and 1991 ⁽⁸⁾.

Monitoring of projects and programmes by the Commission

Direct action

8.62. It was proposed that there should be a systematic plan for monitoring the JRC 1984-87 programme ⁽¹⁵⁾. In fact, the JRC and its Scientific Council decided that the proposed system was too ambitious, and so it was never fully implemented. For example:

- (a) a detailed planning document, issued in October 1984, which was intended to be updated annually as a basis for monitoring projects, was revised and re-issued only once, in May 1985;
- (b) six-monthly progress reports on the non-nuclear energies programme were issued only until December 1985 and the intention of replacing them with annual reports was never fulfilled;
- (c) within the same programme, six-monthly reporting of non-nuclear achievements against planned milestones in tabular form for each project and activity took place only for the first six months of 1984 and

8.63. In accordance with the Council decision adopting the JRC 1984-87 programme ⁽¹⁵⁾, the Commission has produced annual progress reports, which, for example, devote two to three pages to the non-nuclear energies programme. However, the Court considers that these summaries, which are adapted for the Parliament and the Council, are insufficient as a basis for the Commission's monitoring of projects against initial objectives. The monitoring system initially planned by the JRC would, however, have provided such a basis, but no adequate substitute has been found since its abandonment.

Indirect action

8.64. In April 1986 DG XII issued internal rules covering the preparation and financial/administrative management of its research programmes ⁽¹⁹⁾. However, these rules do not deal with the scientific management of either projects or programmes. As a result, monitoring procedures vary considerably between scientific directorates, and even between managers within the same directorate. This lack of coordination and harmonized procedures undermines the coherent assessment of programme execution. The audit revealed particular weaknesses in the areas described below.

8.65. The contractual obligations concerning the different types of scientific reports on their projects which have to be submitted by contractors are ambiguous and are not supplemented by detailed instructions from the Commission. In particular, the nature, form and minimum content of the periodic, final and summary reports and of the abstracts are not clearly defined and the objects tend to overlap. In the context of the raw materials and environmental research programmes, a plethora of scientific documentation is thus received from contractors, much of which is in arrears, and project managers cannot hope to monitor, analyse and assess it in any satisfactory manner. The Commission should rationalize the system of periodic scientific reporting by contractors and should require the reports to provide the information which is essential for internal and external evaluations, i.e. not only scientific and technical results, but other information as well, for example: the potential users of those results, the prospects for Community and international cooperation and development.

8.66. The feasibility of monitoring and evaluation is also dependent on the completeness of the official files kept at the Commission. The audit of the environmental research programme revealed that, in most cases, the DG

XII archive files are based on documents relating to the financial and administrative execution of contracts with little or no evidence of input from the scientific departments responsible for project monitoring in the form of scientific reports, evaluation documents, etc. There is little documentary evidence that visits to projects, whether by scientific or administrative staff of the Commission, are used as a means of monitoring progress. The archives should contain all the key items of information, whether administrative or scientific, in the life of each project.

Internal evaluation

8.67. The Commission's 1983 and 1987 plans of action ⁽³⁾ ⁽⁸⁾ deal briefly with the need for continuous internal evaluation of research as a basis for subsequent external evaluation. These declarations of intent have not been followed up by precise instructions or by the development of a methodology. In practice, these questions have been left up to individual programme and project managers. In these circumstances, some indirect action programme managers have organized semi-external evaluations without coordinating with the formal external evaluations organized by the specialist division of DG XII.

8.68. Although programme evaluation, particularly at external level, must be based on some form of evaluation of individual component projects, DG XII does not appear to have established any overall plan or criteria for such project assessment. In particular, an internal evaluation sheet ought to be produced for each project.

8.69. For direct action, the JRC Ispra Prospective Studies Division produced, in March 1987, an in-depth and wide-ranging internal evaluation study on the nature and quality of research outputs. This is certainly a very useful contribution to the methodology of evaluation but, as yet, it is unclear how it is to be used in the DG XII plan for external evaluation exercises.

8.70. It is therefore felt that the Commission should establish the methodology, criteria and calendar to ensure that internal evaluation takes place for all projects, including both direct and indirect action, as the basis for the external evaluation exercises which are arranged by the specialist division of DG XII and provided for in the Commission's plan for future years.

EXTERNAL EVALUATION OF SPECIFIC PROGRAMMES

Development of Commission methods

8.71. The key area of external evaluation of specific programmes is where the Commission, since 1983, has made the greatest effort to develop a credible form of objective assessment of its research results. Only the specific programmes underwent external evaluation. The first plan of action ⁽³⁾ relating to evaluation applied the method of peer evaluation by independent panels of experts for each of the specific programmes. The objectives, approach and criteria of each evaluation exercise were determined in a flexible manner to take into account the nature of each programme and the needs of users. The Commission has endeavoured to use the experience thus acquired as the basis for improving its approach by means of the new evaluation plan ⁽⁸⁾. The Court's observations on the Commission's achievements in this area are intended as a positive contribution to the future development of this approach.

Mid-term evaluation of the JRC multiannual programme

8.72. Article 8 of the Council Decision adopting the 1984-87 JRC programme ⁽¹⁷⁾ laid down that 'before the next proposal for a multiannual programme, the Commission shall submit to the Council and to the European Parliament a critical analysis carried out by independent experts of the programmes launched by the Joint Research Centre. This analysis shall contain a quantitative and qualitative assessment of the results of the research'. The JRC Scientific Council was asked to undertake this task.

8.73. In addition to its own work, the JRC Scientific Council used the conclusions of eight sectoral evaluation panels selected by the specialist unit within DG XII. Although, in general, each panel selected by DG XII covered one RAP ⁽²²⁾ within the overall Community framework programme (i.e. both direct and indirect action research in a given field), the remit of the Scientific Council itself only included direct action. The Scientific Council evaluation report was submitted in February 1986 ⁽²³⁾.

8.74. In its October 1987 proposal, 'A new outlook for the JRC' ⁽²¹⁾, the Commission proposes, on the one hand, the abolition of the JRC Scientific Council and, on the other, a series of formal mid-term evaluations for the

specific programmes envisaged for 1988-91. It is unclear from the proposal whether this involves a global review of the JRC programmes, as was done in 1986, or a series of separate evaluations. If the Commission intends to carry out a global review, it is not clear from the proposal how this will be coordinated and produced in the absence of the JRC Scientific Council.

Organization and timing of evaluation exercises

8.75. In its opinion on the proposal for the 1985-89 commodities and materials indirect action programme dated 11 October 1985, the Scientific and Technical Research Committee (Crest) emphasized that it was necessary, for the future, to have an evaluation of the results of the previous programmes in sufficient time for it to be possible to give an opinion on the new proposals in full knowledge of the facts. The Commission's plan of action shows, however, that it is not possible to have a full and definitive evaluation of a programme in time for the preparation of the subsequent one and that a time lag — evaluation of programme (P-1) ready only before drafting of programme (P+1) — is inevitable. Mid-term evaluation of programme P is possible, however. Moreover, experience shows that even this timetabling has not been rigorously adhered to and for various reasons evaluations were not always available when the programmes were in preparation.

8.76. An important part of the difficulties created by the evaluation of the primary raw materials programme 1978-81⁽²⁴⁾, which also covered the first phase of the 1982-85 programme, is due to the timetable chosen for it. Whereas the programme ended in 1981, the experts were not appointed until summer 1984 and their report was only published in 1986⁽²⁵⁾, even though it was available at the end of April 1985. The delay in their appointment meant that they were faced with a situation of *fait accompli* and were substantially dependent on the scientific divisions of the Commission for the project appraisals. Their review in fact only covered a limited number of projects. In addition to holding discussions with contractors, they also sent out a questionnaire, which produced a very low response in certain areas. If they had been appointed significantly earlier, the experts would have been better able to prepare standards against which to measure the programme objectives as part of a global review, rather than in purely general, qualitative terms. Moreover, their report would have been available at a more propitious time in the preparation of the 1986-89 programme, which was completed in draft form in April 1985, precisely when the preliminary version of the evaluation report was being published.

8.77. The Commission's timing of the non-nuclear energies evaluation exercise (1985/86) was dictated not only by the need for a mid-term assessment of the JRC 1984-87 programme⁽¹⁵⁾, but also by a desire to synchronize the evaluation of the direct and indirect action programmes covered by a single RAP⁽²²⁾. In fact, the indirect action programme was evaluated after a new (1985-88) programme⁽¹¹⁾ had been approved by the Council. The results were as follows:

- (a) the evaluation was too late to contribute to Commission consideration of the immediate re-orientation of its indirect action programme. The panel itself remarked on this;
- (b) there was therefore less incentive for the indirect action programme managers to contribute actively to the evaluation process.

8.78. The Court considers that there should be no attempt in future to create an artificial link between the timing of direct and indirect programme evaluations if this means undermining the utility of the whole exercise. In order to avoid forfeiting most of the utility of programme evaluations, the decision to proceed with them should be taken in good time, in advance of the deadline laid down in the actual programme decisions.

Content of evaluation exercises

8.79. The evaluation report on the primary and mineral raw materials programme 1978-81⁽²⁵⁾ is mainly an appraisal of the scientific and technical interest of the work and an assessment of the Commission's management procedures. On the other hand, it is not sufficiently precise on several essential aspects, such as the definition of objectives, the practical utility of the results, the socio-economic consequences in the short and medium terms and the desirability of continuing the work in each of the programme fields.

8.80. In October 1985 Crest said that it wanted to be able to give its opinion on a new programme proposal, after having evaluated the results of previous programmes, as well as the use made of them and their economic impact. If the panels are to be able to assemble this kind of information in future, the Commission should set out its requirements accordingly when drafting the panels' terms of reference.

Consultation of potential users

8.81. The non-nuclear energies evaluation report ⁽²⁶⁾ comments in general terms on the industrial impact and relevance of the research carried out. However, there is no evidence that a specific attempt was made by the panel to consult potential users outside the circle in the Commission and Member States (administrators, scientists and contractors) who were directly involved in the management, monitoring or execution of the direct and indirect programmes in this area. The Commission should adopt a procedure for the consultation of potential users for all future external evaluations.

Composition of external evaluation panels

8.82. Examination of the evaluation report on the non-nuclear energies programme ⁽²⁶⁾ revealed the absence of a global approach on the part of the panel, particularly as regards the place of non-nuclear energies in the JRC's overall remit and, more generally, amongst the priorities and global strategy of Community research. This finding raises the question of the composition of the panel. The majority of members of the non-nuclear energies evaluation panel were associated with this area of research as either non-industrial or scientific users. As such they were clearly able to give an expert view of the intrinsic scientific quality of the research, but may not have been in a position to assess the utility of the programme in a wider context. In addition to non-nuclear energy specialists, a more balanced panel could have included, for example, socio-economic experts, specialists from other research fields, potential industrial users or non-Community experts.

8.83. As regards the 1985-86 evaluation of non-nuclear energies research ⁽²⁶⁾, there is no evidence that the Commission really tried to obtain a more balanced composition of panel members, or to issue the type of guidelines which would produce a broader-based appraisal including the socio-economic impact of results and their relationship to the objectives of 1987-91 framework programme ⁽²⁾. The Court considers that this call for a wider view is essential and should have direct repercussions on the composition of future panels. The Court notes, however, that the Commission's new plan of action relating to evaluation ⁽⁸⁾ provides that the composition of panels will be more balanced and more widely-based in future.

Follow-up of the evaluation panels' recommendations

8.84. An examination of the JRC non-nuclear energies programme and other research programmes shows that the Commission gives only an implicit indication of its position on the evaluation panels' conclusions through its proposals for new programmes which include, reject, or adapt the recommendations of the external evaluation reports. At most, the Commission makes a summary statement to the effect that it has taken the conclusions of the evaluation into account. By indicating in the explanatory memorandum to its programme proposals which recommendations it has followed, which others it has rejected and why, the Commission would make it possible for the parties which have been asked to give a decision or opinion to express their views in full knowledge of the facts.

GENERAL CONCLUSIONS

8.85. The Court welcomes the adoption of an ambitious programme for the evaluation of Community research, which was first sketched out in 1983 ⁽³⁾ and was then taken up and extended in 1987 ⁽⁸⁾. It is necessary, however, to examine what has actually been achieved, other than declarations of intent. In this regard the Court wishes to acknowledge the work done by the Commission in recent years in gradually establishing the system of evaluation mentioned in those declarations.

8.86. The Commission itself is, however, certainly aware that there is still a long way to go before the system is perfect. In this regard the Court's criticisms may be grouped under the following five headings:

- (a) there is felt to be a need for uniform guidelines (paragraphs 8.64, 8.65, 8.67, 8.68, 8.70, 8.74, 8.78, 8.80) and for increased coordination of programmes and programme evaluations (paragraphs 8.9, 8.10, 8.75 to 8.78), so as to establish strict management procedures (paragraphs 8.16, 8.17, 8.25, 8.26, 8.35 to 8.43, 8.62, 8.63, 8.66) and to incorporate particular suggestions or initiatives from the various departments (paragraphs 8.64, 8.67);
- (b) wherever possible, researchers must be given precise objectives (paragraphs 8.14, 8.27 to 8.33, 8.58);

- (c) the consultation procedures must be specified in greater detail (paragraphs 8.52, 8.59 to 8.61, 8.81) and, above all, simplified (paragraphs 8.19, 8.20, 8.24, 8.51);
- (d) all phases of the procedure, from programme formulation to *ex post* evaluation, must be governed by the desire to achieve optimum socio-economic impact for the research, whether in the short or the long term. As far as possible, evaluations must be concerned with this effect rather than with the intrinsic scientific quality of the research work (paragraphs 8.14, 8.46, 8.79, 8.80). For this reason, the composition of the evaluation panels must be widened, so that they take more account of this aspect of the research and of the extent to which it satisfies Community needs and objectives (paragraphs 8.82 and 8.83);
- (e) the system of evaluation established by the Commission is based on a series of assessments of specific programmes. The Commission should supplement this approach with global reviews of the framework programme system *per se*. The Commission has already employed a similar global approach in evaluating the role, procedures and achievements of the JRC. This type of evaluation of a framework programme would, therefore, not simply be a compendium of evaluations of the scientific results achieved at the level of specific programmes, but would also include a critical examination of the implementing procedures (paragraphs 8.13 and 8.14).

(1) OJ C 208, 4.8.1983, p. 1.

(2) OJ L 302, 24.10.1987, p. 1.

(3) OJ C 213, 9.8.1983, p. 1.

(4) Advisory Committee for Programme Management (ACPM).

(5) Management and Coordination Advisory Committee (CGC). The CGCs were set up under the Council Decision of 29.6.1984 (OJ L 177, 4.7.1984, p. 25).

(6) Commission Decision of 24.5.1984 (OJ L 177, 4.7.1984, p. 29).

(7) Doc. COM(86) 15 final of 7.3.1986.

(8) OJ C 14, 20.1.1987, p. 5.

(9) In the case of some aspects of the indirect action environment programme 1986-90, only the environmental protection sub-programme was examined.

(10) In the case of some aspects of the indirect action non-nuclear energy programme 1985-88, only the 'solar energy', 'energy from biomass' and 'wind energy' sub-programmes were examined.

(11) Council Decision of 12.3.1985 (OJ L 83, 25.3.1985, p. 16).

(12) Council Decision of 10.6.1986 (OJ L 159, 14.6.1986, p. 31).

(13) Council Decision of 11.9.1979 (OJ L 231, 13.9.1979, p. 30).

(14) Council Decision of 10.6.1986 (OJ L 159, 14.6.1986, p. 36).

(15) Council Decision of 22.12.1983 (OJ L 3, 5.1.1984, p. 21).

(16) OJ C 69, 16.3.1985, p. 3; OJ C 146, 13.6.1986, p. 2; OJ C 319, 12.12.1986, p. 5; OJ S 47, 7.3.1987, p. 38 and OJ C 205, 1.8.1987, p. 4.

(17) OJ S 116, 19.6.1986, p. 49.

(18) OJ S 116, 19.6.1986, p. 48.

(19) Internal rules for the preparation and management of DG XII/JRC research and development programmes to be carried out by contract. Versions of April 1986 and August 1986.

(20) Council Decision of 17.5.1982, (OJ L 174, 21.6.1982, p. 23) amended by Council Decision of 12.12.1983 (OJ L 357, 21.12.1983, p. 33).

(21) Doc. COM(87) 491 final, 26.10.1987.

(22) Research action programme. See paragraphs 8.8 and 8.9 above.

(23) Doc.COM(86) 145 final/Annex, 14.3.1986.

(24) Council Decision of 6.3.1978 (OJ L 72, 14.3.1978, p. 9).

(25) Evaluation of the Community's primary mineral raw materials programme. Report No 16, EUR 10191.

(26) Evaluation of the Community cost-shared research programme on solar, wind and biomass energy and of the Joint Research Centre's programme on non-nuclear energies (1979-85). Report No 22, EUR 10875.

CHAPTER 9

Financial and technical cooperation with non-member States

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INTRODUCTION

9.1. Apart from the signatory countries to the Lomé Conventions, which receive EDF aid, many non-member States receive financial and technical support which is directly financed from Community budget appropriations. Chapter 93 is intended to finance measures to assist Latin American and Asian developing countries, whilst Chapter 96 is concerned with Mediterranean countries.

FINANCIAL AND TECHNICAL
COOPERATION WITH MEDITERRANEAN
COUNTRIES*The financial instruments used*

9.2. The Community uses a number of financial instruments for the purposes of its financial and technical cooperation with the countries of the Mediterranean basin:

- (a) the European Investment Bank (EIB) draws upon its own resources to finance investment projects which are usually required to show a sufficiently high degree

of economic profitability to guarantee subsequent repayment;

(b) in parallel with this form of financing, which draws on funds raised on the financial markets, the Commission makes use of four financial instruments which are funded from budgetary resources entered in Chapter 96 of Title 9:

- (i) subsidies in the strict sense of the word, which are non-repayable grants used to finance development measures that are not in themselves financially profitable;
- (ii) special loans, which are grants (repayable after a moratorium of 10 years over a period of 40 years at an interest rate of 1 %) made with the object of financing development measures which have a very low rate of financial profitability;
- (iii) interest-rate subsidies, which are granted automatically on a flat-rate basis under the Mediterranean financial protocols and which enable the EIB, to which they are paid, to reduce the interest rates on the loans it grants from its own resources;
- (iv) the Community guarantee, which is shown in the budget as a token entry and provides the EIB with the assurance that, in the event that any of the loans financed from its own resources should prove to be irrecoverable, the capital and accrued interest will be immediately repaid. This guarantee gives 100 % cover for each individual loan and is limited overall to 75 % of the total sum outstanding on loans granted by the EIB. Since the total sum due to the EIB at any one time seldom exceeds 75 % of the amounts outstanding, and since it is very unlikely that the borrowers would default on all these amounts at the same time, all the risks may be considered to be *de facto* covered by the Community. The guarantee was invoked for the first time in 1987, with regard to a loan granted to Lebanon, which resulted in 4 Mio ECU being disbursed from budgetary resources to the EIB (Chapter 96, heading 969).

External control of budgetary appropriations

9.3. The Court of Auditors carried out a programme of audit enquiries, which were performed on records at the Commission and on the spot in the recipient countries, in order to assess the entire system of financing aid to Mediterranean countries from budgetary resources. Since the EIB's management of operations financed from its own resources is subject to a specifically defined form of

external control, the Court did not include this type of operation in its audit.

9.4. The audit based on records of operations financed from budgetary appropriations rapidly revealed two points:

- (a) the immediate beneficiary of the interest-rate subsidies and the budgetary guarantee is the EIB, to the account of which the corresponding payments are made;
- (b) as regards the implementation of special loans, the Commission is partly or entirely relieved of its managerial and supervisory responsibilities. By agreement with the Council, it authorizes the EIB to act as its agent for the purpose of either distributing and recovering the loans (broad mandate), or recovering them only (restricted mandate).

9.5. The audit enquiries carried out on the spot in Egypt, Jordan and Malta in 1986 and 1987 provided material with which to assess, with regard to these countries, the different ways in which the Chapter 96 appropriations can be implemented on the ground, whether they are disbursed in the form of subsidies, interest-rate rebates or even special loans managed by the EIB on behalf of the Commission. The Court was able to make these analyses without needing to enquire into the operations which the EIB finances in these countries from its own resources.

9.6. In Cyprus, the national authorities refused to allow the Court of Auditors to carry out an on-the-spot audit of two projects financed from Community budgetary appropriations. The reason given was the opposition of the EIB, and the Cypriot authorities explicitly said that the Bank had been subjecting them to pressure. The underlying reason seems to be that the financing of each of the two projects in question involved loans from EIB resources alongside a contribution from the EEC budget. The problem thus appears to be the fact that finance from the EIB's own resources is mixed with EEC aid, whereas the Court of Auditors' right to make on-the-spot audit visits concerning special loans financed from the EEC budget is not challenged.

9.7. The Court has not been able to obtain from the Commission a clear statement of its position on this matter, or even a simple confirmation of the analysis given above. Despite the Court's asking it to do so, the Commission has not approached the Cypriot authorities to inform them that they are obliged to allow the Court of Auditors to audit the operations by virtue of two convergent provisions:

- (a) Article 82 of the Financial Regulation provides that 'the granting of aid to bodies outside the institutions shall be subject to the agreement by the recipients to an audit being carried out by the Court of Auditors'. The Commission, which never fails to make provision for the Court's right of audit in its relations with

recipients of development aid, even when it entrusts the aid administration to agents such as the World Bank, the Asian Development Bank or any other similar body, has not been able to obtain an agreement from the EIB that it will insert a similar clause in its contracts for special loans financed from the budget;

- (b) the financial protocols signed by the recipient State stipulate that 'the Community shall make sure that this financial aid is expended in accordance with the agreed allocations and to the best economic advantage'. The Commission could therefore have approached the Cypriot authorities in order to ask them to observe this provision and allow the Court of Auditors to carry out an audit.

9.8. The situation which has thus arisen, and this case in particular, shows how difficult it generally is for the Commission to draw all the consequences from the forms of shared management to which it is more and more frequently obliged to resort, not only in the development field, but also in many other spheres, including the common agricultural policy. Proper sharing of management in fact presupposes a sound system of supervision operated by the central managing body and the acceptance by all those concerned of a minimum level of external control. The Court's recent findings suggest that, at least in the sphere of Mediterranean financing, neither of these conditions has been met.

FINANCIAL AND TECHNICAL AID TO LATIN AMERICAN AND ASIAN COUNTRIES (ECUADOR, PERU AND BOLIVIA)

9.9. Of the Latin American countries receiving Community aid, three countries, situated in the foothills of the Andes — Ecuador, Peru and Bolivia — receive a substantial amount of aid from the European Community. Between 1976 and 1987, these three countries received subsidies totalling an estimated 238,4 Mio ECU. **Table 9.1** shows in detail the different types of Community aid given (financial and technical assistance to each of the three countries or to regional organizations, food aid, various subsidies to non-governmental organizations (NGOs), trade-promotion programmes, training grants, cooperation measures in the energy sector, etc.). It also shows this expenditure in relation to budgetary expenditure of the same type disbursed to assist the developing countries as a whole.

9.10. This section deals in turn with:

- (a) the system of financing and management;
- (b) the choice and implementation of the main projects.

The system of financing and management

The EEC's own resources

9.11. Several Commission departments are concerned here. The administrative channels vary depending upon the management operations (selection of projects, preparation of financing decisions and agreements with the recipients or joint financiers, technical opinions, monitoring of project completion, internal control and payment of sums due) and involve the geographical departments of the Directorate-General for External Relations (DG I), the technical and financial departments of the Directorate-General for Development (DG VIII), the financial control body (DG XX) and the paying and accounting departments of the Directorate-General for Budgets (DG XIX), all of which receive, where necessary, the support of the delegation of the Commission of the European Communities for Latin America, situated at Caracas, the cost of whose two staff members, along with their logistic expenses, is met out of the appropriations under Article 930 of the budget (Financial and technical cooperation).

9.12. Of all these departments, the one most directly responsible for managing aid is the geographical department at DG I responsible for aid to Latin American and Asian developing countries, where two members of staff share the monitoring of aid to Ecuador, Peru and Bolivia. Each of these members of staff also has geographical responsibility for several other Latin American countries.

9.13. The large number of the countries falling under the delegation's responsibility and the fact that they are widely dispersed make it extremely difficult for the delegation to supervise all the financing operations carried out under Article 930. The two members of staff responsible are also required to monitor a number of other operations implemented using Title 9 appropriations, in particular, emergency food aid. Their distance from the projects and measures and the communication problems within each country further increase this handicap. All in all, it is just as difficult in physical terms to monitor a project being carried out on the Peruvian or Bolivian high plateaux from Caracas as it is from Brussels. In view of this situation and in the absence of any Andean delegation, the Brussels geographical department has to make numerous and lengthy on-the-spot visits. This situation inevitably leads to duplication of work, poor circulation of information and sometimes even situations of conflict.

Table 9.1 — EEC aid to the Andean countries financed under Title IX of the general budget (indicative figures from 1976 to 1987)

(Mio ECU)

Recipient country or body	Year	Article 930 (Financial and technical assistance)		Article 920 Food aid	Other Community subsidies ⁽¹⁾	Total
		Financing agreement reference	Appropriation committed by way of EEC subsidy			
Bolivia	1976	76/5 Rural development (BISA)	2,0			8,2
	1977	NA 77/15 Ulla-Ulla (IBRD joint fin.)	1,8			
	1978	NA 78/23 Chaco dev. (IDB joint fin.)	2,3			
	1979	NA 79/24 Cochabamba irrigation (FR of GER. joint fin.)	2,0		0,1	
		NA 79/23 Agricultural census	1,0	0,3	0,3	1,6
	1980			0,4	0,3	0,7
	1981			0,2	0,1	0,3
	1982			2,8	1,2	4,0
	1983	NA 83/7 RMPP I Oruro-Potosi	28,0	4,4	0,8	33,2
	1984	NA 84/5 Cesarsama reconstruction	4,0	6,2	0,7	11,0
		NA 84/8 RMPP II Cordepaz	12,5			12,5
	1985	NA 85/10 Santa Cruz reconstruction	9,0	6,1	0,3	15,4
	1986	NA 79/23 Agricultural census	0,2	7,0	1,4	8,6
	1987	ALA/86/17 Rural self-dev. project	20,0	6,1	2,4	28,5
		<i>Subtotal</i>	82,8	33,5	7,6	124,0
Ecuador	1978				0,3	0,3
	1979	NA 79/25 Chambo irrigation	2,9	0,3	0,5	3,7
	1980			1,0	0,7	1,7
	1981	NA 81/9 'Foderuma' rural micro-project	3,0	0,9	0,6	4,5
	1982			2,7	0,9	3,6
	1983	NA 83/03 Bridge reconstruction	2,8	0,8	1,5	5,1
	1984			0,7	0,2	0,9
	1985			0,8	1,0	1,8
	1986			0,2	0,5	0,7
	1987	ALA 87/1 Chambo II — dev. of irr. agric. (Italy joint fin.)	9,0	0,3	1,5	10,8
		<i>Subtotal</i>	17,7	7,7	7,7	33,1
Peru	1978				0,2	0,2
	1979	NA 79/26 Cajamarca afforestation	2,0	1,1	0,6	3,7
	1980	NA 80/35 Ancash micro-dams	1,5	3,1	0,8	5,4
	1981			4,3	1,3	5,6
	1982			5,2	1,8	7,0
	1983	NA 83/21 Cuzco rural investments	6,0			
		NA 83/10 Majes irr. (Italy joint fin.)	5,6	4,4	2,1	18,1
	1984			4,2	1,1	5,3
	1985			3,3	2,2	5,5
	1986	ALA 86/1 Agro-pastoral micro-projects prog. (Pampa/Puno)	16,0	3,3	2,2	21,5
	1987	ALA 86/3 Recons. prev. Lake Titicaca	5,0	3,1	0,9	9,0
		<i>Subtotal</i>	36,1	32,0	13,2	81,3
Total Bolivia/Ecuador/Peru			136,7	73,2	28,5	238,4
Junac	1977-87		34,6		2,3	36,9
OLADE	1978-87		2,4			2,4
Total Junac/OLADE			37,0		2,3	39,3
Total Andean countries & reg. bodies in question			173,7	73,2	30,8	277,7
Total Latin America			490,6	358,0⁽²⁾	128,0⁽²⁾	976,6⁽²⁾
Total Latin America and Asian developing countries			1 724,7	5 249,1	1 047,3	8 021,1

⁽¹⁾ Emergency aid, trade promotion, training, NGOs.⁽²⁾ Estimate.

9 14 Thus, the Brussels geographical department has had its workload increased. At the same time, certain purely administrative duties normally devolving upon it are neglected, in particular, the keeping of project files, checking that the Community joint financiers or the beneficiaries observe their obligations, the signing of documents to enable payments to be made to recipients, etc

The recipient countries' contribution

9 15 The recipient countries face a different type of problem. For many years they experienced chronic political instability and their administrative and technical infrastructures are still inadequate, especially at grass-roots level. There were major monetary and budgetary difficulties throughout the period under consideration, and this affected the results of the Community financing operations. Certain factors will be pointed out in particular

9 16 The financing agreements between the Commission and the recipient country which are entered into for each project usually stipulate, as is normal, that a contribution (financial or in kind), often called a 'counterpart', should be provided by the recipient country. This contribution is coupled with the recipient country's commitment to supervise the work, for a given cost and within specified time-limits. With regard to the amount of the financial contribution or its equivalent in kind (such as services rendered by farmers in the rural communities concerned or technical and administrative assistance to the project supplied by the recipient country's authorities), the Court noted a marked tendency towards inadequacy, not without some exceptions (see paragraphs 9 35 — 9 41 rural micro-projects) and acceptable explanations (see paragraphs 9 60 — 9 65 delays caused by administrative and banking circuits)

9 17 The most blatant shortcoming concerns the Chambo irrigation project (NA 79/25) in Ecuador (6 Mio ECU, 2,9 of which are financed by the EEC), where the national authorities' failure to make available the funds and technical resources stipulated (3,1 Mio ECU) resulted in the two main water-supply tunnels, which these authorities had undertaken to construct, not being completed, thus rendering ineffective over 50 % of the work effected downstream, which was financed by the EEC and implemented with the aid of its technical assistance. In 1987, the Chambo II project (ALA 87/1) (23 Mio ECU) took over, in the name of the Ecuadorian contribution, the two tunnels which should have been completed under Chambo I, and a new Community subsidy (9 Mio ECU) was granted

9 18 In the case of the pilot project NA 79/26 concerning afforestation in Cajamarca, the Peruvian

contribution, estimated at some 50 000 ECU, appeared very small in relation to the Belgian contribution of 1,4 Mio ECU and the Community contribution of 2 Mio ECU. It is true, however, that the financing agreement confined itself to stipulating the principle of a Peruvian contribution without determining the amount. In this specific case, the small financial commitment by the recipient country gives grounds for doubting whether the project will be properly continued when the European financing stops (this fear is strengthened by the observation made in paragraph 9 49)

9 19 The Community subsidy towards the Ancash project (NA 80/35), which provided for the construction of 60 micro-dams, was 1,5 Mio ECU. The Peruvian contribution, which was initially fixed at a similar level, was reduced, with the Commission's agreement, to 180 000 ECU, provided in the form of services in kind (management and supervision). The objective had to be narrowed down to the construction of 20 dams. In reality, after the Community subsidy had been used up, only 10 dams were completed

9 20 In the case of the Phicab project relating to rainfall measurements in the Trinidad and Santa Ana region (part of financing agreement NA 84/05), Bolivia, which is financially responsible for the running of the project, did not appear to be able to fulfil this obligation and has already asked for the Community to cover the cost of renting a satellite which would normally be chargeable to the beneficiary State

9 21 The problems relating to the recipient country's contribution are not solely of a financial and quantitative nature. They also concern the procedures for the implementation of the projects, in particular when a form of joint management has developed. When the EEC's technical assistance extends over the whole period of the project's implementation (see paragraphs 9 35 — 9 41) or when a third joint financier is involved, in addition to the Community and the recipient country (see paragraphs 9 18, 9 22 and 9 33), it becomes necessary to set up *de facto* an operational unit with some managerial independence. The Court noted that although in general this foreign presence was essential if the work was to progress satisfactorily, the political/administrative fabric of the recipient country found it hard to accept, a fact which had created difficulties in two cases

9 22 This was the case of the Majes project (NA 83/10) in Peru (17 Mio ECU, 5,6 of which are borne by the EEC and 2 by Italy), which aimed to develop intensive milk production by irrigating 3 000 ha out of the potentially irrigable 60 000 ha by means of water-supply pipes (35 m³/second) already constructed but not utilized since the secondary network of pipes had not been laid, nor the plots of land to be farmed prepared. The gradual completion of the irrigated plots, in the region of 5 ha per family concerned (currently 500), has not met with any major technical difficulties. The production potential in

fodder crops per hectare is very high, but, as a result of the poor selection by the farmers settled there, the extensive fodder production techniques which they continue to use as a matter of routine and because they refuse to pay heed to the Italian technical assistance, the unsuitable choice of livestock, etc., the results are nowhere near those anticipated by the initial programme. The farmers refuse to pay the small water bills requested of them. The farm mechanization cooperative, set up in accordance with the programme, is underutilized and its prices therefore too high, which are, in turn, an additional reason for this underutilization of equipment. All these discrepancies are caused by just one factor, however: the refusal by the authority responsible for exploiting all of the 60 000 ha of Majes plain to allow a sufficiently independent Italian/Peruvian team to be set up in order to implement a pilot project of 3 000 ha or to allocate sufficient resources to it.

9.23. In the administrative region of La Paz (Bolivia), a team of Dutch technical assistants which assumed responsibility for implementing the programme (19,5 Mio ECU, 12,5 Mio ECU of which is borne by the EEC) of rural micro-investments for the whole area (project NA 84/08) has met with the same type of reaction by the local 'development corporation' (Cordepaz), to such an extent that, here again, the success of the project is in jeopardy. On the other hand, still in Bolivia, the two other teams of technical assistants working on similar projects (see paragraphs 9.38 and 9.39) have not experienced problems of this kind.

9.24. Project NA 83/21 concerning rural investment in the Cuzco region in Peru (8,7 Mio ECU, 6 Mio ECU of which is borne by the EEC and 1,25 Mio ECU by the Netherlands) is typical of the problems inevitably experienced, even when cooperation with the local authorities is sound. The fact is that the technicians and workers made available to the project by the local Peruvian administrations are paid directly by the latter, on the basis of their own salary scales, but excluding certain ancillary benefits. There is thus a rapid turnover of staff, which is detrimental to the project's effectiveness, and pressing claims for salary top-ups have been made to the project's directors which can only be met by reducing that part of the investments which is supposed to be financed from the EEC contribution.

9.25. Lastly, a problem regarding the taking-over of projects may arise. This is the case in respect of the Foderuma project (NA 81/9) (see paragraph 9.48) in Ecuador, where the partner (Central Bank of Ecuador) responsible for carrying out the recipient country's project takes the form of a 'mission' administration, which has ultimately to pass on the permanent management to the administrations which are normally responsible: the Department of civil engineering, agricultural engineering, national education, etc. In this case, the Court considers that the lack of this transfer of

responsibilities undermines the ultimate effectiveness of the project, even when it has been carried out properly (see also observations under paragraphs 9.18 and 9.49, project NA 79/26).

9.26. The Court feels that the time has come for the Commission, when drawing up the financing agreements, to endeavour, with the recipient country, to go into more detail in specifying the conditions under which the teams specifically responsible for the projects which they finance should be formed and operate. The sincere cooperative spirit of the political and administrative staff responsible at central level in the recipient countries would allow this. Any friction at local level will be avoided, especially since a framework will have been specified in advance.

9.27. Project financing and management very often entail calls on third parties, in addition to close relations between the Commission and the recipient country. These calls can satisfy various requirements. In some cases the dominant factor is the need for additional finance; in others the principal motivation is the necessity of ensuring that the project management is of a satisfactory standard. In many cases both factors are involved.

The international development banks

9.28. The aim of project NA 77/15, which was implemented in the Ulla-Ulla region of Bolivia by the World Bank, was to develop the production of wool from llamas and vicuñas, to process this wool (production plant) and market it. It was supposed to cost 21,5 Mio ECU, mainly provided by loans from the World Bank. As part of this overall financing, 1,8 Mio ECU was paid in the form of subsidies by the Community in order to finance the necessary public back-up facilities: roads, schools, etc. Once these Community funds had been used up, it became apparent that the part of the project which was supposed to be productive could not be carried out, even though the machinery had been purchased. The prospects for wool production in the end turned out to be very poor, in terms of both quantity and quality, and the commercial outlets proved to be inadequate to ensure the project's profitability. In January 1987, the World Bank finally decided to waive repayment of its loan and to abandon the project, which has been a total failure.

9.29. Project NA 78/23, implemented by the Inter-American Development Bank (IDB) in Bolivia and concerning the irrigation and development of a sparsely populated part of the Chaco region, aimed to transfer 300 families to this area and thus lay the foundations for subsequent larger-scale development of it. Initially estimated at 14,2 Mio ECU, 1,9 Mio ECU of which was to be borne by the Community and the remainder by

Bolivia and the IDB, the project only achieved a limited percentage of its objectives (80 families settled into the area). Completion of the project will cost at least 2 Mio ECU more than anticipated.

9.30. In these two cases the Community joined forces with a development bank because it did not have adequate administrative resources to manage the projects directly. The outcome has been disappointing. Community funds were made available to the development banks and managed according to these bodies' own rules and criteria. The Community is therefore confronted with 'fait accompli' situations — as, for example, in the Ulla-Ulla project (NA 77/15), the suspension of payments to Bolivia in 1983, or, more recently, the abandonment of the project — over which it has no physical control. This lack of management control is particularly regrettable when the project deteriorates, since there is no way in which the Community can help regain control of the situation, while the disappointed recipient country considers the Commission to be jointly responsible for the project's failure.

Joint financing with the Member States

9.31. Member State contribution to the financing and management of Community projects is not a mere stopgap measure to make good the inadequacy of the Commission's or the recipient countries' own resources. It is an approach recommended by the Council and considered as desirable in itself. The Commission has made extensive use of this facility in the three Andean countries, since co-financing operations with a Member State represent 95 % of the financing operations implemented in Peru, 25 % in Bolivia and 35 % in Ecuador. On the whole, the results noted were quite favourable. The Court nevertheless observed some anomalies which could be rectified.

9.32. First of all, the partner Member State, having received the Community subsidy, sometimes tends to see itself as the only party involved in the project. The Community's financial contribution is thus, to some extent, forgotten. Nothing is done to remind the recipient bodies that this contribution exists. The Commission is not even kept abreast of the project's progress or of any review of the objectives which may prove necessary. Despite three months' notice having been given, the arrival on the spot of a Court of Auditors' audit team comes as a surprise, to such an extent that it is impossible for the team to obtain any financial or technical report whatsoever on the implementation of the project, either on the spot or in the recipient State's capital city. This was

the case with the irrigation project (NA 79/24) near to Cochabamba in Bolivia (9 Mio ECU), which was financed by a subsidy from the EEC (2 Mio ECU), by loans (80 %) and subsidies (20 %) from the Kreditanstalt für Wiederaufbau (KfW) (6 Mio ECU) and, for the remainder (1 Mio ECU), by services in kind by Bolivia. The delays are considerable, as are the extra costs. There are a number of reasons for this: some are external to the project, like inflation, or the temporary suspension of finance payments by the KfW; some are linked to the project, such as the inadequacy of the Bolivian contribution, or the discovery of errors in the original technical design. As regards these problems, no progress report has been sent to the Commission, and no consultations have taken place, despite the undertakings made at the outset. The Commission, for its part, has failed to remind the joint financier of its obligations. In the end, the Court had to go to Frankfurt, to the very headquarters of the KfW, in order to carry out the necessary audit enquiries and to obtain explanations, as a result of which it drew the conclusion that, by and large, despite difficulties and delays, the KfW is managing this project efficiently and with due concern for the EEC's interests.

9.33. A second observation, also of general import, is illustrated by the project (NA 83/21) relating to rural micro-projects in the region of Cuzco in Peru, which is being jointly financed with the Netherlands. In addition to the staffing difficulties this project is experiencing (already pointed out in paragraph 9.24), the Dutch contribution, although in line with what was promised, has proved to be inadequate because the financing costs were higher than expected, owing to the fact that the works have been delayed. Quite a substantial part of the European contribution, earmarked for financing the investments, will therefore have to go towards paying the Dutch technical assistants. At the outset, the legal instruments laying down the rights and obligations of each of the parties were not precise enough, and, above all, were not coordinated. On the contrary, they were drawn up according to circumstances, each separate one from another, to such an extent that the agreement between the Netherlands and Peru was concluded unbeknown to the Commission! As for the two agreements concluded by the Commission — one with the recipient State to grant it the Community subsidy and the other with the Netherlands to confirm that this subsidy would be paid and to obtain that country's agreement to administer the subsidy — they were drawn up one year apart and do not dovetail perfectly. This type of situation is likely to recur in most of the projects jointly financed with a Member State.

9.34. The fact remains, however, that, as a rule, jointly financed projects are managed by the Member State concerned with all the efficiency that comes from having competent technical assistance permanently on the spot

and showing due concern that Community funds should be properly used. Thus, for example, for the afforestation project in Cajamarca (NA 79/26) (see paragraph 9.49), Belgium transferred the funds made available to it under the best possible conditions (transfer in local currency of the bare minimum, selection of the best conditions of exchange offered by the local regulations). Consequently, it was possible to preserve the purchasing power of the original subsidy, an exceptionally favourable outcome, compared with what was found in most of the other projects (see paragraphs 9.66 — 9.69).

Permanent Community technical assistance throughout the project

9.35. A supplementary means of management is the use of technical assistants paid for by the Commission and entrusted throughout the project with monitoring its implementation. The Court's findings during its audit visit show that the results obtained are, in this respect, conflicting.

9.36. The Chambo project (NA 79/25) in Ecuador has not proved to be a success, owing to both Ecuadoran weaknesses (see paragraph 9.17) and a flaw in the project's design which is in part attributable to the technical assistance, the total cost of which, wholly charged to the Community subsidy, represented an abnormally high proportion of the latter (0,8 Mio ECU out of 2,9 Mio ECU, i.e. almost 30 % of the Community contribution). The entire task of providing technical assistance was entrusted to the firm which carried out the preliminary feasibility study. Obviously, this study failed to highlight sufficiently the project's lack of financial profitability, which a later expert's report, commissioned by the Commission, clearly brought out. In the irrigation area to which the Community subsidy applies, all the factors contribute to making the return on the investment very low (extremely hilly area, poor quality of the soil, farm holdings too small, lack of technical and commercial back-up).

9.37. Conversely, the recently implemented rural investment programmes in Bolivia (NA 83/7 and 84/8) show that, provided certain precautions are taken, permanent recourse to technical assistance financed by the EEC may provide an excellent solution. For these programmes, the Community financing amounted to 42,5 Mio ECU, the Community having, moreover, committed itself to some 20 Mio ECU extra, with the Bolivian authorities, for their part, promising the equivalent. Each programme involves setting up an organization bringing together local staff and the technical assistants from the EEC, jointly led by a

representative of the local development corporation and by the head of the Community team. This organization, which is allocated considerable material and financial resources, is responsible for many small-scale agricultural development measures: it has not only to carry them out but also to design and select them, with a view to obtaining the maximum benefit for the region in question, which covers a large area and is densely populated.

9.38. The programmes, which started on different dates, have achieved varying degrees of progress, depending on the areas concerned. The first to have become properly operational was the Potosi programme, which at the outset experienced considerable difficulties connected with monetary conditions during 1983-84 (exchange losses, loss of capital from the revolving fund intended to finance loans to farmers) but enabled interesting technical constructions to be made, which were numerous, varied and provided a great many lessons in the field of development (see paragraph 9.41).

9.39. The Oruro programme, which did not become operational so quickly, also experienced heavy initial exchange losses, but avoided the decapitalization of its revolving fund by learning from the experience of the Potosi programme. Despite deficiencies in the financial and accounting management, it has to its credit achievements which are similar to those of Potosi and just as promising, thanks, among other things, to good cooperation with the regional development corporation.

9.40. The third programme, for the region of La Paz, which was launched in 1985, is experiencing financing difficulties (slow Community payments, incomplete Bolivian contribution) and is suffering above all from a serious conflict with the regional authorities, which is likely to undermine its management autonomy (see paragraph 9.23).

9.41. This type of financing, involving the participation of European technical assistants, towards which the Community is now moving, represents over 50 % of the funds committed since 1977. The results are promising, given that this type of financing involves combining, over huge regions, the factors which are indispensable to effective development operations: a large contribution in Community currencies in order to acquire the goods and equipment necessary for carrying out the investments; the involvement of European technical assistants who are able to ensure a true transfer of technology; the active participation of the recipients, in the form of contributions in kind — local public finance, making available of local administrative and technical resources, labour supplied free of charge by the recipient farmers — all of which is fundamental for ensuring that the choices made correspond to local needs and for paving the way for the

programme to be continued independently when Community cooperation is withdrawn.

9.42. But the Court must draw attention to the need to observe the following conditions for the proper implementation of these programmes:

- (a) the local authorities must fulfil their commitments properly, in terms of paying their contributions in full, not only to the local farmers, but above all to the local administrations;
- (b) the European technical assistants, who have to stay involved throughout the implementation of the project, must show considerable psychological aptitude for joining forces with their local partners;
- (c) the financial and accounting systems set up must be safe and informative, especially as regards analysing the cost of each micro-project, in order to permit, on the spot, a rational choice of micro-investments and, in Brussels (so long as no EEC delegation is opened in La Paz or Lima), a form of constant supervision which is rapid in its reactions.

The choice and implementation of the projects

The agri-foodstuffs context

9.43. The projects financed by the EEC are, as Council Regulation (EEC) No 442/81 of 17 February 1981 ⁽¹⁾ on financial and technical aid to non-associated developing countries itself stipulates, basically devoted to rural development and to the development of agricultural production. The agri-foodstuffs context cannot therefore fail to be of importance and the three Andean countries concerned depend heavily on imports from the world market, which cover over half their food needs, taking all the products together. The guidelines given in Regulation (EEC) No 442/81 are therefore justified.

9.44. In addition to the projects financed from Chapter 93 of the EEC budget, the three countries receive deliveries of food aid financed from Chapter 92. In Ecuador and Bolivia, this aid is intended for distribution free of charge. In Peru, it is sold in order to provide counterpart funds enabling investment projects in the agricultural field to be financed. In view of these countries' per capita GNPs (Peru: 908 USD; Ecuador:

995 USD), this aid can be justified, for these two countries, only by the substantial food imports needed and the no less substantial deficits on their balances of payments. In Bolivia, on the other hand, GNP per inhabitant is only 525 USD. A Court audit team has investigated, on records and on the spot, the way these deliveries are made, in the light of the unavoidable requirements as regards quality at the time of unloading, storage, and, in the case of free aid, distribution to target groups of the population via the recipient State or via the NGOs.

9.45. As regards aid distributed free of charge, the only points to be noted concern Bolivia: firstly, some milk powder donated via Licross deteriorated, leading to a loss of about 30 000 ECU because of this organization's failure to claim compensation for the damage from the insurance company; secondly, the storage methods used by the Bolivian authorities turned out to be inadequate. With regard, lastly, to the Peruvian system of counterpart funds, the Court found that it was managed correctly, but that products donated by the EEC were put on sale on the domestic market at prices close to those on the world market, i.e. very much lower than the production costs of local agriculture.

9.46. Here lies the real problem, which concerns not only food aid, but also all import policies in the agri-foodstuffs sector. Although aware of the danger of discouraging local producers, who are already handicapped by often unfavourable natural factors and high transport costs, the governments of the three countries in question nevertheless import the products they lack and make them available to the inhabitants at international market prices. The aim is to curb inflation by providing cheap goods for the urban areas. This has led to an acceleration of the drift away from the land and has further swollen the populations of the large cities (Lima: 7 million inhabitants; La Paz: 2; Guayaquil: 3). The possibilities of making profitable investments in agriculture are thus being constantly reduced; also, the area in which the EEC policy of granting rural investment aid can be effective is getting smaller and smaller.

9.47. The Majes project (NA 83/10) in Peru is already suffering from a number of handicaps (see paragraph 9.22), despite having been well planned, technically, from the outset. But it is likely to be dealt the 'coup de grâce' by the government policy of buying supplies of milk powder at low prices on the world market, which has led the private company purchasing the milk production of the farmers located in Majes to suspend its purchases from August 1985 to August 1986, in order to avoid operating at a loss.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

9.48. The marginal rural development fund (Foderuma) (project NA 81/9) in Ecuador (see paragraph 9.25), without having experienced any such dramatic events, is another example of the difficulty which the Community sometimes faces in finding rural development projects to finance which have a real future. This project (NA 81/9) involves making a financial contribution of 3 Mio ECU to a programme planned and implemented by the Central Bank of Ecuador. The Foderuma, by paying out subsidies and making loans, supports numerous small measures for improving the infrastructure, the soil and the conditions of agricultural production, with the aim of encouraging the local people, who are attracted by the large urban centres, to stay on the land. In one region — Chimborazo — where the living conditions are extremely difficult (altitudes in places of more than 4 000 metres, very steeply sloping hills, cold and wet climate, lack of means of communication), the measures, carried out in accordance with the programme, are useful: electrification, construction of schools and clinics, rural roads, etc. The success of the projects has been shown by the local people's increasing use of rural banking facilities, an indicator of renewed confidence in local agricultural production, even if the latter is proving to be vulnerable as a result, among other things, of heavy soil erosion. Nevertheless, this is purely a humanitarian measure, likely to slow down an unavoidable trend and ease the transitional stages, but not to provide a profitable basis for the rural and agricultural development of the region subsidized.

9.49. Another operation of the same kind is the Cajamarca project (NA 79/26), jointly financed in Peru with Belgium and managed by this Member State. The idea is to show, by means of a pilot project, the profitability of afforestation in the area in question. The project, estimated at just over 3,4 Mio ECU, of which 2 Mio ECU is borne by the Community and the rest by Belgium and Peru, has been somewhat delayed. Furthermore, the original aims will not be achieved within the limit of the planned appropriations. And, above all, a forest fund, which is indispensable to the financial continuation of the project and is being sustained by sales of trees, can be effective only after 15 years at the earliest, when the first trees can be sold. The duration of the project, however, is only five years. For 10 years, at least, the planting work will therefore most probably be suspended, which is contrary to the aim of the operation.

The regional projects

The 'Junac'

9.50. The Andean Pact has brought together, since 1969, under the Commission of the Cartagena Agreement

('Junac'), Peru, Ecuador, Bolivia, Colombia and, since 1978, Venezuela. Its headquarters are in Lima and it has a staff of about 100 people. Its operating budget is financed by the Member States of the Andean Pact.

9.51. For 10 years, the European Community has been subsidizing a part of the operating budget by contributing a total of 34,6 Mio ECU to the financing of about 15 programmes to which the Member States of the 'Junac' contribute, for their part, by making available civil servants, teachers or other technical means. The programmes aided by the Community are mainly divided between three sectors: agri-foodstuffs (17,6 Mio ECU); the wood sector (8,6 Mio ECU); industry and energy (8,4 Mio ECU).

9.52. An examination of the accounts and files points to a favourable judgment on the Junac's financial and administrative management of Community funds. The Member States of the Andean Pact provide their contributions in kind, as agreed. The oldest programmes have been carried out in full and the programmes that are still under way seem to have made satisfactory progress. The EEC subsidies have been paid out gradually, as and when needed, and they are managed by the recipient in such a way that exchange losses have been avoided (see paragraph 9.68).

9.53. The effectiveness of the programmes themselves is, of course, more difficult to assess. They consist of studies, pilot projects and training schemes. The overall idea is to analyse the characteristics of the different economies, to identify the divergences and to investigate the bases on which measures could be introduced making it possible, by contrast, to encourage the emergence of a regional market in each of the sectors concerned. An examination of the conditions under which these projects were carried out and used has shown that in general they are specific, consistent and serious.

The OLADE

9.54. The OLADE (Latin-American Energy Organization), which was set up in 1973, covers 25 countries and has its headquarters in Quito. Its objective is the integration, conservation, rational use, marketing and protection of the energy resources of Latin America. Contributions to its resources come from the Member States and external donors, mainly OPEC, the USA and the EEC.

9.55. The OLADE has received Community subsidies charged to headings 930 (about 2 Mio ECU), 933 (about

0,6 Mio ECU) and 706 — 'energy policy' (about 0,6 Mio ECU) — of the Community budget, for financing studies and research. A Court audit team was totally unable, despite an on-the-spot visit announced a long time in advance, to obtain any information at all on which to assess how these funds were being used. This total failure is not a result of uncooperativeness, but simply of the absence of files and of any organized form of accounting management. This situation is due to the very rapid turnover in the OLADE's administrative and technical management staff, which is systematically renewed every two years, with a few exceptions. This factor, linked to the obvious lack of internal organization, makes the OLADE unable to give even the most elementary account of how the funds received have been used, let alone of how useful they have proved, or to produce the studies financed, or to indicate the results of these studies or say what has happened to them. For the future, the Court must therefore warn against continuing this collaboration.

The delays in carrying out the projects

9.56. The main delays in executing the projects found at the time of the audit visit are as follows:

- (a) project NA 84/5 concerning the repair of the Cesarsama bridge and flood protection for the towns of Trinidad and Santa Ana in Bolivia, has been considerably delayed because of the slowness of the financial systems downstream of Brussels and the difficulties experienced in drafting the invitations to tender within the context of the setting up of the alarm system for these two towns;
- (b) the same is true for project NA 83/03 concerning the reconstruction of bridges near Guayaquil in Ecuador. Although this reconstruction programme was urgent, and this fact was recorded in the financing agreement, and although it was supposed to be finished by the end of 1986, only three of the 11 bridges planned had been finished by January 1987, the others still being at the stage of the preparatory work;
- (c) the completion date for the work on project NA 80/35, concerning the construction of micro-dams with a view to putting new life into the areas stricken by drought in the region of Ancash in Peru, was initially set for December 1984. Three years later, only half of the 20 dams planned had been finished;
- (d) project NA 79/23 concerning the national agricultural census in Bolivia has already taken twice as long as the three and a half years which were set at the

outset. In the meantime, not even half of the planned work has been carried out;

- (e) project NA 83/21 relating to a rural investment programme in the region of Cuzco in Peru has also experienced a considerable delay (eight months). The project could only be started with the aid of a loan raised on the financial market.

9.57. The over-running of the completion deadlines is often accompanied by a modification of the aims which were laid down at the outset in the project financing agreement. This applies to the bridge reconstruction project near to Guayaquil (NA 83/03), which consisted in making 2,8 Mio ECU available to the Ecuadoran authorities in order to rebuild bridges destroyed by floods. Of the 11 bridges planned, only three have been finished. A fourth was stopped in mid-construction because of legal problems. Work on three others will soon start. Of the rest, still at the stage of the preparatory work, two are new structures not provided for by the financing agreement. The Commission was not aware of this *de facto* situation. There is no doubt about the usefulness of the programme thus modified, although the profitability of the two entirely new works is questionable.

9.58. Similarly, there is project NA 84/5, with an estimated total cost of 3,8 Mio ECU, of which 3,4 Mio ECU are borne by the Community and the rest by the Bolivian authorities, which was originally supposed to make it possible, with the aid of Italian technical assistance, to rebuild a bridge over the Cesarsama river and to combat floods in Trinidad and Santa Ana (construction of dykes, drainage networks, alarm systems, etc.). The reconstruction of the bridge, however, has been replaced by the purchase of a machine which should make it possible subsequently to reconstruct several bridges, and the Community has had to increase its contribution to just over 4 Mio ECU.

Delays due to Community decisions

9.59. There are many causes for these delays. Mention should first be made of those which can be attributed directly to decisions by the Community's political authorities:

- (a) first of all, there is the question of the shortage of appropriations, which arises when the volume of payment appropriations authorized by the budgetary authority is not consistent with the volume of commitment appropriations allocated previously. In this context, project NA 83/21 was held up (see paragraph 9.56(e)) because there were not sufficient payment appropriations available at the end of 1985, as the Court has already pointed out in its annual report on the financial year 1985 (2). While author-

izing the project managers to borrow 300 000 USD the Commission undertook to finance expenditure in the following financial year, outside the cases expressly envisaged in the Financial Regulation. In addition, the cost of this borrowing (in interest and exchange losses) proved to be abnormally high (79 292 USD for 90 days) and had the same disadvantage as the suspension of payment, in that it placed a heavy burden on the Community contribution and thus reduced its purchasing power by the same amount;

- (b) secondly, there are the delays which are due to reasons arising from the political climate, resulting in a stoppage of payment of the subsidies provided for in the financing agreements, such as can be seen, mainly in the case of Bolivia, for the years 1981 to 1983. Payments were suspended, usually at the instigation of the joint financiers with which the Commission was associated, but always with the Commission's agreement. This unilateral breach of a contractual obligation subsequently serves as an encouragement to the beneficiary State, in its turn, not to respect its obligations, even if the Community payments are resumed. Moreover, in a period of high inflation any delay in payment is translated into a loss in the purchasing power of the outstanding subsidy, which is unchanged in terms of its nominal value. The final volume of the finished project is correspondingly reduced, so that the failure of the project is then frequently inevitable. For example, only 60 % of the agricultural census in Bolivia (project NA 79/23) — which is nevertheless urgent and essential — has been completed, after almost 10 years of effort and despite a Community contribution of 1 Mio ECU. Owing to the delay, the total cost of the project in real terms will ultimately be 3,5 times higher than the initial forecasts. This also applies in the case of the Ulla-Ulla (NA 77/15) and Cochabamba irrigation (NA 79/24) projects mentioned in paragraphs 9.28 and 9.32 above.

Delays attributable to administrative and banking circuits

9.60. Analysis of the delays in payment which are of purely administrative or bank origin shows that the payments made from Brussels in the course of a project are of two kinds. The first are indirect payments to the beneficiary State or to the authority with responsibility for the project, which are generally used to settle expenses in local currency. The others are direct payments for imports of equipment, services or technical assistance, which must be effected mainly or entirely in foreign currency. The Commission then makes these payments direct to the economic agent who provided the service to which they relate.

9.61. In the case of the three Andean countries, the Court audit team found a number of instances in which the economic agent in question was an enterprise established in the beneficiary State which had experienced delays in receiving payments owed to it by the Commission. This applied particularly in the case of project NA 84/5 (see paragraph 9.56(a)), which involved bridge repairs in the province of Cochabamba and flood protection work in the towns of Trinidad and Santa Ana, for which the main contractor was paid more than six months after submitting his application for reimbursement.

9.62. In Bolivia, the second transfer to an account in La Paz in respect of the investment project in the La Paz region (NA 84/08) was received only six months after the relevant application. In connection with project NA 83/03 for bridge reconstruction in Ecuador, an application for reimbursement which was sent to Brussels at the time of the Court's audit visit was settled over nine months later.

9.63. The very complexity of the administrative systems makes them slow. From the request for funds up until the final payment, these systems comprise a dozen operations⁽¹⁾, a good half of which are carried out by Community departments. At this stage, the delays (see **Table 9.2**) apparently occur in the accounting and paying departments, but these are not necessarily, however, the departments which are truly at fault. The delays are in fact often due to errors upstream: for example, at the authorizing stage, insufficient supporting documents, details of the beneficiary and of his bank account not sufficiently precise, etc.

Table 9.2 — Average processing time for payment documents relating to Chapter 93 expenditure (all the payments made from 10.1.1986 to 31.3.1987 for expenditure committed in 1986, i.e. 222 operations)

Administrative processing of the payment file	Working days	Calendar days ⁽¹⁾
Opinion of geographical and technical departments	15	24
Validation and authorization	10	16
Entering expenditure	24	40
Approval by Financial Controller	5	8
Payment (choice of a banking circuit for transferring funds to the beneficiary's account, and transfer to the account of the first institution in that circuit)	6	8
Total average duration	60	96

⁽¹⁾ Taking into account an average number of non-working days (weekends and public holidays).

9.64. But the most lengthy delays are above all due to the banking circuits, whether imposed by the beneficiary State or selected by the recipient of the payment. The analysis made by the Court in conjunction with the competent Commission departments shows that two measures would form the pre-condition to any significant improvement:

- (a) the recipient should open an account at a European bank or, failing that, at a bank which has a correspondent bank holding an account in Europe;
- (b) payments in ECU should become the norm; this form of payment, however, will meet with reluctance on the part of some European firms tendering for works or supply contracts.

9.65. These two measures have to be taken if the errors referred to in paragraph 9.63 are really to be eliminated. Furthermore, this would also enable the paying department to notify each recipient of the dispatch of any payment which concerned him and to clearly identify the reason for the payment. A system of receipt notes and notification of all the departments concerned would thus provide the necessary transparency in order for the Commission and the recipient to be able to appraise the performance of the banking intermediaries selected and to draw conclusions.

Dealing with monetary problems

9.66. The high rates of inflation experienced in varying degrees by the three Andean countries have often given rise to the introduction of managed exchange systems, involving several more or less favourable rates for changing convertible currencies into local currency. In the course of its enquiries the Court found that this phenomenon often led to the loss of part of the Community subsidy. Apart from the slowness with which it is disbursed, the value of a subsidy can also be affected by the choice of payment systems and procedures.

9.67. Generally speaking, subsidies are made available in a series of tranches, the first of which is usually in the form of an advance, topped up with further tranches as evidence is provided, by means of supporting documents, that project expenditure has been effected. By changing Community ECUs into dollars too quickly, at a time when the dollar was depreciating, and then converting the dollars into 'sucres', 'intis' or 'pesos', the local currencies concerned, at a time when these currencies were themselves falling against the dollar, all at sometimes very adverse exchange rates, the project managers allowed the subsidies made available to them to decline in value. Moreover, by holding the sums in question in local currency in accounts which yielded little return, and not utilizing them quickly, the managers allowed the subsidies received to decline in value a second time, particularly when internal inflation reached the highest levels in the

world — more than 1 000 % annually in Bolivia in 1982-84.

9.68. Overall the value of some ECUs was reduced by more than 80 %. Losses of this kind were recorded in Bolivia, particularly in the case of the initial payments to the regional rural investment programmes (NA 83/7 and 84/8). Similarly, in the case of the Foderuma rural micro-projects programme (NA 81/9) in Ecuador, the initial payments were effected at an adverse controlled rate of exchange. An identical process explains the rapid exhaustion of the subsidy allocated to the Ancash project (NA 80/35) in Peru (see paragraph 9.19). Proper management could have prevented these losses, as evidenced by the contrary results obtained with Belgian technical assistance in the Cajamarca project. In the latter case, only the amounts which were strictly necessary were converted into dollars, and only essential sums for immediate payments were converted into intis. In addition, the most favourable controlled rates of exchange were obtained from the banks, contrary to what the Court found in its examination of the two projects mentioned previously.

9.69. The attention of the Commission was rapidly drawn to the combined effects of the above factors. It then requested the beneficiary States to hold the Community advances in foreign currency accounts and/or to apply the least adverse controlled rates in the case of Community transfers. The response was not always immediately favourable [Foderuma (Ecuador NA 81/9), Ancash (Peru NA 80/35), RMPP II Cordepaz (Bolivia NA 84/8)]. In future, financing agreements should be required to include an undertaking by the beneficiary State that, where there are several exchange rates, Community subsidies will be converted at the most favourable rate.

Final observation concerning the three Andean countries

9.70. Despite the criticisms made above, the results of the financial and technical cooperation undertaken by the EEC and the three Andean countries over the last 10 years have, on the whole, been positive. Unlike what is happening in some other Asian and Latin American LDCs, where the Community provides assistance in kind in the form of goods, with which the beneficiary uses its own funds to finance projects which are Community projects in name only (see the Court's Special Report No 4/86 on financial and technical cooperation with India) ⁽⁴⁾, the EEC aid is applied to projects which are really financed and carried out jointly by the Community and the beneficiary State. Case by case, support is given,

as necessary, for expenditure in local currency, plant and/or technical assistance of European origin and services at every technical and administrative level provided by the beneficiary State. Because of this, a fruitful dialogue ensues, to the mutual benefit of both parties.

9.71. The Caracas delegation, which is responsible in theory, is in fact much too far away to be able to monitor projects in practice. Inevitably Brussels has to monitor them itself, which results in difficulties of all kinds. Opening a Community delegation in at least one of the three Andean countries which receives aid from it is a measure which could provide a significant improvement to a fair number of the difficulties pointed out in this report.

9.72. The choice of projects aided, which is conditioned by the extreme paucity of management resources, has improved as the Commission has gained experience. For several years the use of permanent teams staffed by European technical assistants has made it possible to widen the range of possible projects and to initiate on a wide scale the financing of systems of rural micro-projects, which are integrated into the local socio-economic framework and managed on a local scale and produce an economic return higher than that of many more centralized projects.

9.73. But the fact that the Andean countries feed their urban populations at low cost by importing extensively at world prices is ruining their prospects of agricultural development and rendering the opportunities for profitable investment increasingly rare.

9.74. The use of international development banks as managers and joint financiers has, in this case, proved very disappointing.

9.75. In the case of joint financings by the Community and a Member State, care should be taken to ensure that in both temporal and substantive terms there is consistency between the financing agreement concluded between the Commission and the beneficiary State, the management agreement concluded between the Commission and the joint financier and the agreement concluded between the latter and the beneficiary State. For each of the parties involved, there should be total transparency of these three documents. The best solution would in fact be to draw up a single reference document in the form of a tripartite agreement.

9.76. As regards the teams responsible for implementing the projects on the spot, their degree of autonomy and the terms on which the local technicians are made available to them should be clearly defined.

9.77. Finally, continuous attention must be given to the question of financial circuits in order to reduce the time required for payments between the Commission and the immediate beneficiaries on the spot and to find satisfactory solutions concerning exchange rates and cash-fund mechanisms.

(1) OJ L 48, 21.2.1981.

(2) OJ C 321, 15.12.1986.

(3) Request for funds by the public works department; forwarded by the Ministry of Foreign Affairs; forwarded by the Community's Permanent Representative; opinion from the Commission's technical staff; opinion from the geographical sections of the Commission; examination, validation and authorization by the Commission's financial departments; approval by the Financial Controller; entry by the accounts department; payment by the funds

department and passage through an international banking circuit selected afresh each time by the same department according to the account which the beneficiary State has designated to receive the funds; transfer to one of the beneficiary State's accounts; monitoring of the beneficiary State's budgetary and accounting procedures to provide lines of credit in the Ministry concerned; payment to the various beneficiaries.

(4) OJ C 75, 23.3.1987.

CHAPTER 10

Staff and operating expenditure

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INTRODUCTION

10.1. This chapter examines the management of the Community institutions (staff and operating expenditure). The management of the institutions calls for certain observations which, depending on the case, concern general matters relating to all or some of the institutions, or questions particular to just one institution.

10.2. As regards staff expenditure, this year the Court of Auditors audited the management of staff salaries at the

Council, the Court of Justice and the Economic and Social Committee. Observations concerning the Commission, the Parliament and the Court of Auditors appeared in the Annual Report on the financial year 1986 ⁽¹⁾. This report also deals with invalidity pensions charged to the budget.

10.3. As regards operating expenditure, the observations concern, amongst other things, general subjects, i.e. expenditure by the institutions on office accommodation and on formal and other meetings.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

STAFF EXPENDITURE

Management of staff salaries at the Council, the Court of Justice and the Economic and Social Committee.

COUNCIL

Overtime payments

10.4. Since the Court's investigations in 1982 (2) and 1984 (3), the system governing the working and payment of overtime has not changed, despite certain undertakings by the Council regarding employees in categories A, LA and B, who are being treated in a manner which is contrary to the provisions of Article 56 of the Staff Regulations.

10.5. Since then, the number of hours of overtime worked has constantly increased, rising from 42 000 hours in the first half of 1982 for employees in categories C and D (which corresponded to 67 000 hours to be taken as compensatory leave or paid as overtime) to 70 000 hours in the first half of 1987 (which corresponded to 82 600 hours to be taken as compensatory leave or paid as overtime), i.e. an increase of about 66 %.

10.6. In practice, a system for storing up the days granted in compensation for overtime has also been set up, with the result that, at the end of the financial year 1987, Council officials and employees of all categories had accumulated claims to a significant number of days' leave.

10.7. As a result, since the establishment at the end of 1981 of the Council's internal rules on overtime, a total of 50 466 days of compensatory leave has been granted to the Council's staff as a whole, 21 176 of which had still not been taken as at 31 December 1987. At that time, there also existed a reserve for category C and D employees of 74 055 hours in compensation for hours worked as overtime in accordance with Article 56 of the Staff Regulations, i.e. about 9 874 days, which, added to the 21 176 days of compensatory leave, represented a total of 31 050 days, i.e. about 150 man/years.

10.8. At the end of the financial year 1987, out of a total staff of 1 920 employees, 1 630, from all grades and categories, had days of compensatory or physical recovery leave due to them, although Article I of Annex

VI of the Staff Regulations lays down that compensatory leave is to be taken during the month following that during which the overtime was worked (failing which an overtime payment must be made) and the Council's internal rules state that, save in exceptional circumstances, time off for health reasons must be taken the day after the overtime has been worked. In fact, 755 employees had built up a reserve of between 10 and 50 days, 117 were entitled to between 51 and 100 days and 28 to more than 100 days, 293 days being the maximum anyone had accumulated.

10.9. These statistics show that the system set up by the Council generates additional expenditure. When employees who have accumulated a large number of days' leave decide to take them, they have to be replaced by other employees, or their work has to be done in the form of more overtime. When leave is stored up until the time when an employee leaves the institution, the payments then due, calculated in accordance with the salary received by the employee at that time, can add up to the equivalent of several months' remuneration. In any event, the objective of a period of rest immediately following a prolonged effort is not being achieved. Moreover, the practice of storing up leave has the effect of carrying over costs and is therefore open to criticism with respect to the financial rules.

Three-quarters-time work

10.10. In Staff Notice No 44/87 on part-time employment, the Secretary-General informed the Council's staff of the possibilities open to them, in particular as regards three-quarters working-time. This option may be granted for the same reasons as half-time employment, i.e. for the raising of young children, vocational training, or for reasons of age or health. Nevertheless, it does not comply with the Staff Regulations, which provide only for full-time and half-time employment. Any other modifications of working time and the ensuing financial and social consequences can be introduced only if the Staff Regulations are amended.

COURT OF JUSTICE

Division of responsibilities

10.11. The Finance Division manages the data-processing package used for salary payments. It therefore deals with the input of data and the calculation of remunerations. Employees in this Division also draw up the collective statement, check it and prepare the annexes attached to it. The payment order is then submitted for

signature to the Authorizing Officer, who is the head of the Personnel Division.

10.12. This division of labour means that:

- (a) the Authorizing Officer has no direct control over the validation and calculation of remunerations;
- (b) Article 38 of the Financial Regulation, which prescribes that the collective statements must be drawn up by the department in charge of personnel, is not observed;
- (c) the principle of the separation of duties is not fully observed since the Head of the Finance Division is also the Accounting Officer, which means that he cannot take on responsibility in the calculation of remunerations and the drawing up of the payment order.

Preparation of salary payments

10.13. The Personnel Division does not carry out systematic and exhaustive checks to ensure that all the decisions of the Appointing Authority, and only those decisions, have been correctly entered into the 'Salary' data files. Such checks are particularly important as there is no management file on computer in the Personnel Division which could be compared with the 'Salary' files to find out whether there are any discrepancies.

10.14. The Personnel Division does not even receive the two documents detailing modifications made during the month, i.e. the identification forms and the list of differences in the figures. Furthermore, it does not have on-line access to the data contained in the 'Salary' package. There is no documentation relating to checks which may have been carried out, other than that concerning the verification of family allowances.

ECONOMIC AND SOCIAL COMMITTEE

Preparation of salary payments

10.15. Data is fed into the 'Salary' files by direct input. The official responsible for this is also responsible for checking the entries afterwards by comparing the list of differences with the document setting out pecuniary rights, whereas such checks should be carried out, within

the administrative unit responsible for input, by a second person.

10.16. Furthermore, the direct transfer of data from the 'Management' file to the 'Salary' package is on program and is general practice. Information concerning new employees (recruitment) is thus systematically transferred directly to the 'Salary' files. But, since the two systems are designed for different purposes (staff management and the calculation of remunerations), they should be kept completely separate. Provided that information is entered into each file separately, it is possible to carry out periodical comparisons between the files, which thus become an effective way of checking the data on each file. This is of particular relevance since such a program exists at the Council, whereas the Economic and Social Committee has no system of checking.

10.17. The Authorizing Officer's Department does not carry out any month-by-month comparisons of salary payments, including the effects of any modifications, with a view to verifying the regularity of the payment made in the most recent month. The 'Salary' package, however, produces, together with the calculation of the monthly remuneration, an expenditure and revenue balance broken down by budget heading. A comparison between the balances for successive months (the final balance for month n-1, plus new entitlements granted and less benefits withdrawn, must correspond to the final balance for month n) would reveal whether all the modifications had been correctly taken into account in the input and pinpoint any mistakes. In failing to do this, the Authorizing Officer's Department is overlooking a simple and efficient means of verification, which would be of particular value given that no checks are carried out at the validation stage.

Payment procedure

10.18. During the financial year 1987, all payments (13 collective statements of an average 1,6 Mio ECU of monthly remunerations and arrears) were made to employees without the competent Authorizing Officer first drawing up a proposal for commitment of expenditure and a payment order. As soon as the salary payments had been calculated by computer, the employee responsible for these operations took the magnetic tapes and the instructions to pay to the bank, and the transfers were made. The payment orders were not drawn up until much later (two to five months after payment), yet the Financial Controller still approved them. The sums were debited in the accounts when the payment orders were produced, i.e. after the payments had been made.

10.19. Such conduct is a flagrant breach of the rules laid down in Articles 36 to 46 of the Financial Regulation and

calls the respective roles of the Authorizing Officer, the Financial Controller and the Accounting Officer into question, since the latter is required to suspend payment in the event of non-compliance with the procedure provided for in the Financial Regulation. As a result, on two occasions in particular (6 and 14 July 1987), the Financial Controller had to point out that there were no funds available against item 1190 (Weighting) and that a transfer would have to be made. The corresponding payments had, nevertheless, already been made, in the months of January and February of the same year.

Absence of reciprocal information

10.20. The Authorizing Officer, the Financial Controller and the Accounting Officer are not able to consult each other's files directly from a computer terminal, even though the information these files contain is vital for the procedures of commitment, validation, authorization and execution of expenditure. This situation results from the use of three incompatible types of software at the Economic and Social Committee. This lack of direct access to each other's data means that each time one department requires information from another a print-out has to be made. Use of the same software by all three departments would be a quicker and far more effective solution to the problem.

Advances to staff

10.21. The Secretary-General of the Committee grants advances, to be repaid by deduction from employees' salaries, in accordance with Article 76 of the Staff Regulations. However, in the case of some of these advances, the conditions laid down in the Staff Regulations were not fulfilled.

10.22. The Director of Administration also grants advance payments on salaries in situations not covered by Article 76. This practice is irregular. Article 42 of the Financial Regulation lays down that the Authorizing Officer may grant advances to members of staff only if the Staff Regulations or the provision of some other regulation specifically provide for them, and Article 76 of the Staff Regulations is the only legislative provision which authorizes the granting of advances.

OBSERVATION APPLICABLE TO A NUMBER OF INSTITUTIONS

10.23. As regards the taxation of paid overtime, the Council, the Court of Justice and the Economic and

Social Committee do not correctly apply Regulation No 260/68, which lays down the conditions and procedure for applying the European Communities' income tax. Although Article 6 of the Regulation provides that sums paid as compensation for overtime should be assessed for the purposes of the tax at the rate which was applied to the highest taxable amount of the official's remuneration during the month preceding that of payment, all three institutions apply the rate applied during the month in which the overtime was worked.

Invalidity pensions in the institutions

10.24. Expenditure relating to invalidity pensions charged to item 1201 of Section III, Title A-I, of the budget amounted to 39,3 Mio ECU in 1987, an increase of 25,3 % compared with 1986 and 137,8 % compared with 1983. By comparison, expenditure relating to retirement pensions amounted to 49,3 Mio ECU in 1987, an increase of 18,2 % compared with 1986 and 110,7 % compared with 1983.

10.25. Invalidity pensions paid by the European institutions have been analysed on two levels. First, the statistics were looked at: those of the institutions themselves and then, for comparison, those of other international organizations which, like the institutions, employ an international staff, and those of the French banking sector, whose pension scales are representative of the usual scales for office staff; the regulatory side is then analysed, that of the institutions and again, for comparison, that of the coordinated organizations i.e. the Council of Europe, the WEU, NATO, the OECD and the ESA (4). This comparison proved interesting because the organizations have a common pension scheme very similar to that of the European institutions, on which it was modelled.

Statistics on invalidity pensions paid by the European institutions

10.26. On 31 December 1987, 1 428 former Community employees were in receipt of invalidity pensions, (Parliament 122, Council 72, Commission 1 196, Court of Justice 15, Court of Auditors 8, Economic and Social Committee 15). The number of pensions had increased by 13,4 % compared with 1986 and 77,8 % compared with 1983. In comparison, 1 541 employees were in receipt of a retirement pension as at 31 December 1987, an increase of 9,6 % compared with 1986 and 44 % compared with 1983. The recipients of these two types of pension as at 31 December 1987 were distributed between the various career brackets as shown in **Table 10.1**.

Table 10.1 — Breakdown of invalidity and retirement pensions paid as at 31 December 1987

Career bracket	Retirement pensions	Invalidity pensions ⁽¹⁾	Invalidity pensions paid to employees aged 65 and over
A 1	72	3	2
A 2	137	7	4
A 3	229	47	10
A/LA 5/4	380	191	43
A/LA 7/6	33	32	4
A/LA 8	—	—	—
Total A	851	280	63
B 1	214	125	42
B 3/2	139	131	28
B 5/4	13	41	9
Total B	366	297	79
C 1	156	251	62
C 3/2	35	330	57
C 5/4	4	45	8
Total C	195	626	127
D 1	13	123	40
D 3/2	—	74	10
D 4	116	3	—
Total D	129	200	50
Grand total	1 541	1 403⁽²⁾	319

(1) Including the figures given in the column headed 'Invalidity pensions paid to employees aged 65 and over'.

(2) Excluding 25 employees paid in the form of an advance, pending calculation of their pensions.

10.27. As can be seen from the table, categories A and B account for the major part of retirement pensions, with 79 %, while categories C and D account for only 21 %. On the other hand, categories C and D receive 58,9 % of all invalidity pensions, whereas categories A and B account for 41,1 %. Although, for category A, invalidity pensions represent only about a third of retirement pensions, for category B they are almost equal and for categories C and D they are much higher, so that nine out of 10 employees retiring in career bracket C3/2 do so on grounds of invalidity and all employees in career bracket D3/2 retire on such grounds.

10.28. A relatively large number of employees receiving invalidity pensions are in the grades which, in practice, correspond to career ends, i.e. grades A5/4 and A3 in category A, grades B3/2 and B1 in category B, grades C3/2 and C1 in category C, and D3/2 and D1 in category D.

10.29. Pensions paid in accordance with the regulations, which set a minimum level for invalidity pensions (see paragraph 10.34), represent 36 % of total invalidity pensions. Only about 4 % of such pensions are paid to category A and B employees, whereas 57 % are paid to category C employees and 39 % to those in category D. As regards the latter categories, it should be noted that the minimum invalidity pension is always higher than the retirement pension, at a maximum rate of 70 %, to which employees in categories D, C (up to grade C2 step 2) and grades B5 and B4 up to step 2 are entitled. It is in these grades in particular that a relatively high number of invalidity pensions is to be found compared with the number of retirement pensions. Furthermore, the granting of the minimum invalidity pension is independent of the employee's actual or potential number of years' service within the institutions, just as no account is taken of any professional experience prior to the moment the employee took up his duties within the institution or, where such activity did exist, of whether pension rights previously acquired have been transferred to the Community scheme.

Comparative statistics

10.30. If a statistical comparison is made between the application of the Community scheme and that of the coordinated organizations, it emerges that, in the Community institutions, invalidity pensions represent 35,7 % of the total number of pensions (retirement, invalidity and survivors' pensions), whereas in the coordinated organizations they account for only 10 %. Moreover, the annual increase in the number of invalidity pensions as a proportion of the number of officials and temporary staff working amounted to 8,2 % in 1984, 7,2 % in 1985, 8,6 % in 1986 and 8,7 % in 1987 in the institutions. In comparison, in the coordinated organizations, the average annual increase in invalidities was only 2 %.

10.31. In a report on the pension scheme drawn up at the request of the Council, the standardized percentage of people retiring on grounds of invalidity ⁽⁵⁾ is given for the Community institutions and for the French banking sector, the latter being representative of the normal percentages for office staff. The percentages for the institutions are distinctly higher than those for the banks, with a very big increase in the 60-64 age bracket. To cite just two examples, in the Community institutions, for men, the figure stands at 17,7 % at the age of 60 and 34,0 % at 64 (25,8 % and 38,3 % respectively for women), whereas in French banks, the figures stand at only 1,9 % at the age of 60 and 3,0 % at the age of 64 (10,0 % and 13,5 % respectively for women).

The pension schemes of the European institutions and of the coordinated organizations

10.32. The European institutions' pension scheme, which also covers invalidity, is governed by the Staff Regulations of officials and/or the conditions of employment applicable to other servants of the European Communities. The regulations lay down that an official or a temporary member of staff is entitled to an invalidity pension if he is 'suffering from total permanent invalidity preventing him from performing the duties corresponding to a post in his career bracket'. The scheme does not provide for partial invalidity. At the medical level, an Invalidity Committee, consisting of three doctors, decides whether an employee is in fact an invalid within the meaning of the provisions of the Regulations. If they decide that he is, the employee is automatically retired and receives an invalidity pension by decision of the competent appointing authority of the institution in question. The procedure is opened either at the initiative of the institution, in which case the employee must have taken a total of over 12 months' sick leave over a period of three years, or, where appropriate, on the advice of the medical officer, or at the request of the person concerned. The same procedure is followed in the coordinated organizations.

10.33. Throughout the 12 months during the three-year period prior to the opening of an invalidity retirement procedure, which may be termed a period of temporary inability to work and which is therefore not covered by the pension scheme, the European Communities pay the person in question the whole of his salary. As regards the coordinated organizations, the Council of Europe, the OECD and the WEA pay the salary for six months. When that period expires, it is the national social security system of the host country of the organization and the insurance companies to which the organization is affiliated which cover the salary costs and medical expenses of the employees of these organizations. The results of all the medical examinations are included in the medical file of the person concerned, which is submitted to the Invalidity Committee should an invalidity procedure be initiated.

10.34. In the European institutions, as in the coordinated organizations, employees acquire entitlement to an invalidity pension the day they take up their duties and there are no requirements involving a minimum period of contribution to the scheme. The invalidity pension is the equivalent of the retirement pension to which the employee would have been entitled at the age of 65. However, it may not be lower than 120 % of the minimum subsistence level, i.e. 67 528 BFR gross (approx. 1 565,3 ECU), at a weighting of 100 and with effect as of 1 July 1987, in the European institutions, or 49 500 BFR (approx. 1 147,4 ECU) in the coordinated organizations. An invalidity pension is not replaced at the statutory age limit of 65 years by a retirement pension, which is in all cases calculated on the basis of the number of years of service during which contributions to the schemes were paid.

10.35. Although the Community regulations prohibit the concurrent payment of an invalidity pension and a retirement pension, they do allow concurrent payment of an invalidity pension with a private invalidity pension where the reason for the payment is the same. There is no provision governing the possibility of an employee being in receipt of an invalidity pension at the same time as he is gainfully employed elsewhere. In the coordinated organizations the rules are stricter. They cover not only the retirement pension but also income resulting from gainful employment, which beneficiaries are obliged to declare, and the pension may be reduced in accordance with the level of income. There are also limits applying to the concurrent payment of an invalidity pension with that of a private invalidity pension when both benefits are paid for the same reason.

10.36. Under the provisions laid down in the Communities' Staff Regulations, the institution can require an employee in receipt of an invalidity pension to undergo a periodical medical examination, until he has reached the age of 60. If it is found that the employee no longer satisfies the conditions for payment of the pension, he must be reinstated by the institution where he was previously employed. The employee must be made two offers of employment and in the event of his declining them both he can be required to resign, in which case he loses his entitlement to the pension which he had until then been paid. The conditions for the termination of the payment of an invalidity pension are clearly stricter in the coordinated organizations, since they terminate the pension of any employee who has not reached the statutory age for retirement (65 years) and has ceased to satisfy the requirements for receipt of an invalidity pension. If the person concerned is not reinstated, either he receives a severance allowance, which takes into account the number of years' service and invalidity, if the total is less than 10 years, or he receives a deferred or early pension.

General comments

10.37. The percentage of invalidity pensions is clearly much higher in the European institutions than in the coordinated organizations and French banks, although the nature of the work is very similar and employment in the coordinated organizations, like that in the institutions, involves the additional pressures of expatriation.

10.38. As regards the rules and their application, the number of invalidity pensions and their structure give rise to concern that the system may be being abused, for instance, that attempts are being made, in general and particularly in the institutions, to acquire a minimum pension of a substantial amount after a short period of activity (real or potential), that invalidity pensions are being used as a substitute for retirement pensions which would be lower, and that attempts are being made to obtain an early retirement pension, under the guise of an invalidity pension, at the rate which would have been received at the age of 65.

10.39. In its annual report on the financial year 1982 (6), the Court noted that, except at the Economic and Social Committee (the Court of Auditors was not involved at the time), medical examinations were not carried out after an invalidity pension had been granted (see paragraph 10.36) and recommended that this situation should be remedied. Despite a recommendation by the heads of administration that these examinations should be carried out every two years, unless the Invalidity Committee had stated that there was no reason to do so in view of the type of invalidity, the Parliament and the Council do not avail themselves of this possibility.

10.40. To conclude, although the purpose here is not to call into question individual cases dealt with by a particular Invalidity Committee, the general results of the implementation of the pension scheme do appear questionable. Given that the scheme is clearly not particularly restrictive and is predominantly social in nature, it is particularly necessary for the institutions to interpret the rules very restrictively in order to ensure that the scheme is not used to serve purposes other than those for which it was set up.

OPERATING EXPENDITURE

Expenditure by the institutions on office accommodation

Introduction

10.41. Expenditure on office accommodation by the institutions has already been the subject of a special report by the Court of Auditors, in 1979 (7).

10.42. In 1982, the Parliament, noting the 'substantial and growing' cost to the Community budget of renting buildings, adopted a resolution on the accommodation policy of the Community institutions (8) which referred to the implementation of a policy that 'minimizes cost to the Community budget and enables the Community institutions to work most effectively' (indent 10 of the Resolution).

Development of the institutions' accommodation policy

10.43. Since the Court's 1979 report, office space occupied by the institutions has risen from a total of 788 000 m² to 1 348 500 m² at the end of 1987. It should

be noted that at present the institutions occupy about 150 buildings, which result in total expenditure on rent of the order of 100 Mio ECU a year (20 % of the total operating expenditure of the institutions).

10.44. These developments are not the result of an accommodation 'policy' as such on the part of the Communities. They are, in actual fact, the consequence of individual decisions by the institutions, each acting independently, in the three working places and in other countries. In Brussels, the premises used have been centred around the 'Rond-point Schuman' as regards the Commission and the Council and around rue Belliard for the Parliament, although this concentration in a 'European quarter' has not taken the form of a joint complex. In Luxembourg, the various institutions on the Kirchberg plateau, a newly-developed part of the city, again requested the Government, unilaterally, to place buildings at their disposal. In Strasbourg, the city authorities took on the responsibility of accommodating the Parliament, with the Council of Europe letting out its chamber for Parliamentary sessions.

10.45. In general, the institutions have continued to rent buildings, despite the fact that it is clearly the most expensive way of accommodating their staff, as the Court mentioned in its special report of 1979.

10.46. In a few instances, the institutions have in fact built their own buildings. Although this is a better solution in financial terms and from the point of view of efficiency, it has been based on a multi-annual forecast in such a way that the commitments entered into *vis-à-vis* third parties over a long period were initially covered by the budget based on the system of annual appropriations.

10.47. The way in which this expenditure is dealt with at the budgetary level, i.e. the fact that availability of appropriations is decided annually, makes renting the most attractive option; this is very expensive and no consideration is taken of the economies which could be made in the long term by other alternative solutions, such as constructing or purchasing buildings.

10.48. Figures for the cost of renting buildings for each institution and in each working place (Brussels, Luxembourg, Strasbourg and other places) are shown in **Tables 10.2 and 10.3**.

10.49. **Table 10.3** gives, in particular, an idea of the prices paid per m² to rent the Communities' premises in 1978 and 1987. Although the prices shown are gross averages relating to rents which were determined on different dates, it is clear that the cost of renting accommodation is rising. It should also be noted that there has been a steady increase in rents paid by the institutions over the last 20 to 25 years. For example, the

Table 10.2 — Rent increases in the various working places

Working place	1978			1987		
	Total surface area (1 000 m ²)	Annual rent (Mio ECU)	Price per m ² (ECU/m ²)	Total surface area (1 000 m ²)	Annual rent (Mio ECU)	Price per m ² (ECU/m ²)
Brussels	497,1	25,9	52,1	816,7	63,8	78,1
Luxembourg	230,8	13,4	58,1	381,1	24,8	65,1
Strasbourg	34,7	0,3	8,7	98,6	4,7	47,7
Other places	25,4	1,3	51,2	52,1	6,9	132,4
Total	788,0	40,9	51,9	1 348,5	100,2	74,3

Table 10.3 — Rent increases by institution

Institution	1978			1987		
	Total surface area (1 000 m ²)	Annual rent (Mio ECU)	Price per m ² (ECU/m ²)	Total surface area (1 000 m ²)	Annual rent (Mio ECU)	Price per m ² (ECU/m ²)
Parliament	115,7	4,7	40,6	312,0	19,3	61,9
Council	78,8	5,0	63,4	111,9	10,5	93,8
Commission	546,7	28,8	52,7	851,9	65,2	76,5
(of which the OOPEC)	(17,1)	(0,9)	(52,6)	(29,1)	(2,2)	(75,6)
Court of Justice	24,7	1,3	52,6	35,9	2,5	69,6
Court of Auditors	9,2	0,5	54,3	14,3	1,1	76,9
Economic and Social Committee	12,9	0,6	46,5	22,5	1,6	71,1
Total	788,0	40,9	51,9	1 348,5	100,2	74,3

buildings rented in Brussels cost 920 BFR per m² in 1962 (JECL building), 1 975 BFR per m² in 1976 (Charlemagne building) and by 1987 rents had reached 5 500 BFR per m² (extension of the building situated at 113 rue Belliard) — a six-fold increase compared with 1962 (the price index having increased four times over the same period). In Luxembourg too there has been a large increase in rents. In 1987, rents of 4 950 BFR per m² were accepted (for the BAK III building) while in 1973, the Court of Justice building was rented at 1 376 BFR per m² (i.e. rents were 3,6 times greater after a period of 14 years).

Terms of leases

10.50. The terms of the leases accepted by the institutions are those in force on the property markets in the three working places. A coordinated approach by the institutions to the owners of the buildings in existence or under construction in Brussels or to the government authorities in Luxembourg would have made it possible to obtain more appropriate lease conditions. It should be borne in mind, in this respect, that in Brussels the

institutions occupy 816 700 m² of office space, which gives them indisputable leverage in any negotiations. However, in practice, each institution has negotiated separately with the owners/lessors, thus losing all the advantages of coordinated action.

10.51. In its special report, the Court pointed out that long-term renting of buildings constructed for the institutions should be accompanied by the benefit of a reduced rent after depreciation of the investment. There has not, however, been any change to the situation observed by the Court. With certain exceptions (e.g. the A. Borschette conference centre in Brussels), there is no precise indication that this aspect has played a role in the negotiation of contracts.

Indexation of rents

10.52. The Court of Auditors also recommended that the institutions should examine whether the terms for the

indexation of rents were economically justifiable and, more generally, that they should pay particular attention to this aspect in the case of premises constructed to meet the specific needs of the institutions.

10.53. In such situations, where the funding of the building work usually takes the form of a long-term, fixed-rate mortgage already covering financial depreciation in the period in question, indexation of the rent, if accepted, represents an additional advantage for the developer. To ensure that the prices requested are at an appropriate level, the financing contract should therefore be referred to. The institutions should always insist on the cost of rents being justified by precise reference to the cost of financing.

10.54. In this respect, it was noted that, as a result of rent indexation, returns on the investment costs of some buildings constructed for the Communities had practically doubled compared with initial returns.

10.55. Some institutions (namely the Parliament and the Court of Auditors) have provided for the possibility of renegotiation within a certain period rather than the application of automatic indexation. This example should be followed by the other institutions when leases are negotiated or renewed.

Payment of national taxes

10.56. The institutions based in Brussels have signed contracts which commit them to paying national taxes on rented premises (property tax) in the place of the owners. Despite previous observations by the Court ⁽⁷⁾ and a Parliamentary Resolution ⁽⁸⁾, the problem has not been solved.

10.57. Each year this unjustified expenditure steadily increases. **Table 10.4** gives an estimate of the sums paid by the institutions in the form of property tax on buildings in Brussels.

10.58. The institutions should raise the matter with the Belgian Government. On a practical level, the institutions ought in any event to avoid paying taxes to the Belgian Treasury which are the obligation of the owners of the buildings. It was noted in this respect that some diplomatic missions in Brussels systematically refuse to pay property tax, even when their contracts include this stipulation. The institutions should, at the very least, adopt a similar attitude in the future.

Table 10.4 — Property tax (précompte immobilier)

(ECU)

Institution	Sums committed in 1978	Sums committed in 1987
Parliament	39 415	213 994
Council	383 918	941 329
Commission	837 361	3 671 037
Court of Auditors		4 708
Economic and Social Committee	44 913	121 124
Total	1 305 607	4 952 192

Utilization of appropriations for the payment of rents (Article 200 of the budget)

10.59. Expenditure on rents (Article 200 of the operating budget of the institutions) could also be better audited if management of forecasts and budgetary implementation was stricter.

10.60. A detailed analysis of expenditure by the institutions on rent (Article 200, Rent) for the period from 1984 to 1986 reveals a number of facts in this respect.

10.61. In particular, this form of expenditure calls for the following comments:

- (a) The appropriations that have been made available in recent budgets for Article 200 (Rent) have usually been over-estimated, when compared with actual requirements, and in fact considerable sums are regularly transferred from this article in order to consolidate other budget headings (about 5 Mio ECU/year).
- (b) Some rent payments also cover payment for the fitting-out of buildings, which should be charged against Article 204 (Fitting-out of premises) and not Article 200 (Rent) (level of annual payments for work charged against Article 200: about 18 Mio ECU).

Purchases

Council Decision of 14 December 1981

10.62. In 1981 the Council of Ministers approved a basic guideline on accommodation policy. The Decision adopted on 14 December 1981 states, in particular, that 'The Council has no objection in principle to the institutions, in their proposals for meeting accommodation needs in the places of work assigned to them by decision of the Member State governments, considering the various possible legal and financial solutions and highlighting that solution which seems to them to be the most appropriate, including purchasing. The institutions' proposals concerning accommodation policy must nevertheless be examined individually within the Council, without prejudice to the issue of where the institutions are based.'

10.63. This Decision, which is important because of the possibility it offers the institutions of acquiring premises, did not have the desired results, due, in particular to the Council's own refusal, as Budgetary Authority, to provide the necessary financial resources.

10.64. Thus, the requests by the Court of Justice and the Court of Auditors to be allowed to build their own premises, although justified in terms of the potential savings, met, in 1982, with a negative response from the Council, which was seemingly anxious to limit any immediate increase in the operating budget whilst ignoring the potential savings in the medium term.

10.65. The various initiatives which the Commission has managed to take have been undertaken without any advance guarantee that the funds would be available. In addition, during the construction of the new office block on the rue de la Loi in Brussels, around 10 % of the payments had to be made in advance, in contravention of the provisions of the Financial Regulation, so as to prevent the annual appropriations being cancelled.

10.66. The Council, for its part, opted, on the contrary, to declare the building of its new Brussels offices at the 'Rond-Point Schuman' a compulsory item of expenditure (Article 297 of the budget).

Purchases of premises

10.67. In contrast to the situation in the various places of work in 1978, the Commission has purchased the following premises:

(a) a building in Brussels (120, rue de la Loi) which is intended to form part of an administrative block which is still under construction (cost: 4,4 Mio ECU);

(b) a building of 55 500 m² (the 'Breydel' building) in Brussels paid for in 20 equal annual instalments (cost of the operation: 6 140 Mio BFR i.e. ± 142,1 Mio ECU).

10.68. These purchases are obviously economically advantageous, when compared with the alternative of renting the same buildings. For example, the Commission, in 1986, estimated that the cost of purchasing the 'Breydel' building in 20 annual instalments would be 6 140 Mio BFR (± 142,1 Mio ECU), whereas renting the building over a period of 20 years would have cost 9 091 Mio BFR (± 210,4 Mio ECU).

10.69. It must also be noted that the 'turn-key' purchase of these premises by the institution spares it the problems involved in building the premises as the client.

10.70. As regards the premises rented by the Court of Auditors in Luxembourg, the possibility of an eventual purchase has been envisaged and a clause has been inserted into the contract allowing for the purchase of the building and the deduction from the purchase price of the rent paid.

Conclusions

Coordination

10.71. The institutions' accommodation situation, which in the past has been distinguished by an absence of coordination, is continuing to evolve without a common approach. Many aspects of the accommodation 'policy' none the less require coordination and rationalization, such as the establishment of common five-year forecasts, the shared use of premises, the definition of common technical standards, etc.

10.72. To this end, an inter-institutional committee capable of bringing the institutions closer together was set up, following the publication of the Court's first report. This inter-institutional committee on accommodation policy (known as 'GIPI'), which was set up in 1980, did some useful work for a time, but these first efforts were not followed up since the committee ceased to function

after 1984. This specialized body should be reconstituted and granted advisory powers over the major issues concerning the siting and management of premises.

Technical and legal standards

10.73. Until now, each institution has adhered to its own technical standards or to those of the host country. Bearing in mind the variety of experiences in this area, the Court has already drawn attention to the need for coordination aimed at rationalizing and standardizing the institutions' requirements in terms of staff accommodation.

10.74. The institutions should draw up, with the assistance of experts or specialized bodies, a technical document setting out common standards applicable to all of them. This would not be to the exclusion of the specific standards which are called for in special cases.

10.75. The various leases which exist at present, should, in future, be replaced by standardized documents which meet the requirements of both sound management (appropriate rent indexation, acceptable service charges, refusal to pay local taxes, etc.) and of the Financial Regulation (payments to be made as they fall due, award of contracts after invitations to tender, etc.).

Justification of expenditure on rent

10.76. Renting is the most costly solution to the accommodation problem. Except where rent is on a short-term basis, the total amount of rent paid for any given building is far higher than its building cost plus depreciation. All alternatives to renting must therefore be studied, and new instances of renting must be justified as being more desirable than the other possible solutions.

Budgetary approach

10.77. The purely annual approach to accommodation costs adopted until now by the budgetary authority no longer fulfils the requirements of sound management, with annual costs of 100 Mio ECU and contractual commitments of up to 20 or 25 years. Faced with constantly rising expenditure, the institutions are in practice prevented from drawing up an investment policy, which alone would allow for substantial savings to be made. This being so, the Budgetary Authority should provide for the creation of a multi-annual investment

budget to promote, where possible, the purchasing and construction of premises. This would also enable leases or long-term loan contracts to be signed in compliance with the financial provisions governing this type of commitment.

Observations concerning expenditure on formal and other meetings

General

10.78. Expenditure incurred by the institutions on meetings, which is charged to Chapter 25 of the budget, was subjected to a horizontal audit. Only those institutions which called for comment are mentioned below. There are substantial differences between the various systems for reimbursing expenses and paying allowances to persons attending meetings. In the absence of a suitable system for the institutions as a whole, each institution has determined independently the rules to be applied to persons attending meetings. The system applying to the members of the Economic and Social Committee was decided on by the Council.

10.79. Persons attending meetings convened by the European institutions are, in principle, entitled to a refund of expenses. Thus, non-governmental experts are normally granted travel and subsistence expenses. Different rules exist for government experts. The Council does not grant subsistence allowances to national civil servants. At the Commission, various systems exist side by side. Government experts who attend meetings of committees receive, in most cases, only travel expenses. However, there are still 18 committees where subsistence allowances are also paid. Members of the Economic and Social Committee receive daily subsistence allowances as well as travel expenses.

10.80. **Table 10.5** outlines the number and cost of the meetings held during the financial year 1987 by the three institutions which convene members or experts most frequently.

COUNCIL

10.81. Article 250 of the Council's budget (9,8 Mio ECU in 1987) covers, in particular, the reimbursement of

Table 10.5 — Number and cost of meetings

Institution	Number of meetings	Number of meetings attended ⁽¹⁾	Expenses reimbursed (Mio ECU)
Council	2 123	25 346	9,4
Commission	2 279	33 914	17,0
Economic and Social Committee	410	11 000	4,6
Total	4 812	70 260	31,0

⁽¹⁾ Some experts attended several meetings.

travel expenses incurred by the President and his staff and by the delegations at Council sessions and meetings.

10.82. Travel expenses are reimbursed either on the basis of forms filled in by the participants at the time of the meeting or on the basis of written applications submitted to the General Secretariat some days after the meeting by the Permanent Representatives or by the Member States directly.

10.83. Disregarding applications submitted by the participants themselves at the time of the meetings, expenses are sometimes refunded without the supporting documents being checked, in other words, without proof that the delegates have actually made the journey. In particular, there are no lists showing which delegates attended each meeting. The system for verifying costs incurred by the meetings would seem to require reinforcing.

10.84. It has furthermore been observed that around 40 % of delegates attending Council meetings also attend the meetings of the various Commission committees. This being the case, a system of inter-institutional control of travel expenses should be set up.

COMMISSION

Committees and working parties

10.85. A large number of working parties and committees have been set up by Community acts and at the Commission's initiative. For verification purposes, a list of the committees coming under Article 251 (Committee meetings) is annexed to the budget⁽⁹⁾. In practice, this

list, which is updated by Directorate-General XIX (Budgets) during the preparation of the budget (very early in comparison to the reference financial year), is not always updated when it is published. The Secretariat General, for its part, draws up an annual list of all the groups and committees meeting within the Commission (863 in total). In fact, the lists published in the budget do not necessarily coincide with those drawn up by the Secretariat General.

10.86. As mentioned above (see paragraph 10.79) there are various reimbursement systems. There are, furthermore, some committees, such as the Scientific Committee for Food and the Scientific Committee on Cosmetology, and their sub-committees, where the subsistence allowance rate is twice as high (145 ECU). Occasionally, the same members take part in other committees, where their participation is reimbursed at the normal rate (72,5 ECU). An effort should be made to lay down new provisions aimed at aligning the various scales, which currently depend too heavily on discretionary assessment of the professional status of the experts consulted.

'APEX' data-processing package

10.87. 'APEX', a data program for the management of meeting expenses, came into operation in 1986. This system collates all the data relating to experts participating at meetings (22 000) and all the places from which they travel (3 000), with their respective distances from Brussels and Luxembourg.

10.88. This data-processing package, which is aimed at controlling the management of meeting expenses, nevertheless needs to be improved. Amongst other things, there is insufficient program documentation. There are no spot checks on the accuracy of data inputs (relating to distance and maximum travel expenses, for example).

Reimbursement of expenses

10.89. There seems to be a need to revise the criteria followed, such as considering distance as a determining factor in the granting of specific travel expenses and allowances for travelling time, while:

- (a) taking into account present developments in communications, particularly with regard to the allowances for travelling time, which are acceptable only in cases of long and tiring journeys;

- (b) taking into account the deregulation of air fares and possible reductions in travel costs, with a view to laying down maximum refundable fare rates;
- (c) requiring more accurate proof of expenses from the experts (tickets to be submitted for all forms of transport, including rail, proof of subsistence expenses to be supplied on the spot, etc.).

10.90. As regards the validation of refundable expenses, the Commission should also reinforce the internal procedures currently in force, which do not provide all the required guarantees of accuracy. With this in view:

- (a) guidelines should be laid down for the secretaries of meetings, specifying their duties in respect of the contents of the expenses forms;
- (b) additional checking should be organized within each Directorate-General, comparing attendance lists and lists of reimbursements, which should be verified by a member of staff other than the secretaries who take the minutes;
- (c) photocopies of tickets submitted should be appended to the payment of expenses files.

COURT OF JUSTICE

10.91. The appropriations under Chapter 25 ('Expenditure on formal and other meetings') of the Court of Justice's budget are mainly reserved for training courses for members of the judiciary (Article 250) and meetings with high-ranking legal officials in the Member States (Article 255). In 1987, the appropriations available under Chapter 25 came to 0,24 Mio ECU.

10.92. Part (83 300 ECU) of the appropriations available under Article 255 (150 000 ECU) is allocated to 'visits' by individuals or groups of legal officials from the Member States, organized by the Judges' private office staff. It should be noted that the reimbursements made in respect of these visits vary according to the Member State and that the amount paid is often calculated at a flat rate. In two cases, payment was made in advance in order to enable the visitors to buy their tickets. Furthermore, in 23 cases, the commitments for the relevant expenditure were made after the event, in contravention of the provisions of Article 32 of the Financial Regulation, the private offices

having failed to inform the administration in time of the visits organized.

10.93. In order to promote greater transparency in the management of appropriations, in line with the provisions of the Financial Regulation, there should be common rules stipulating the amount of reimbursements permissible and the administrative procedure to be followed.

ECONOMIC AND SOCIAL COMMITTEE

10.94. The members of the Economic and Social Committee (189 people), their alternates and the experts duly appointed to participate in the Committee's work are all entitled to have their expenses reimbursed. Travel expenses and subsistence expenses, both for days spent travelling and for those spent attending the meeting (total cost in 1987: 4,6 Mio ECU) are eligible for reimbursement.

Verification of attendance at meetings

10.95. Checks on the attendance of persons invited to meetings would not appear to be thorough. Indeed,

- (a) the minutes of meetings, containing the names of the participants and absentees, are drawn up approximately 20 days after the date of the meeting;
- (b) finance department staff do not possess attendance lists for the purpose of making their own checks;
- (c) examination of a sample of 17 meetings showed that, in nine cases, people (14 in all) had been reimbursed, when, according to the minutes of the meeting, they were not present.

Payment of expenses for days spent travelling and attending meetings

10.96. Daily subsistence allowances for 1987 were set at 4 000 BFR (\pm 93 ECU) for members and at 2 600 BFR (\pm 60 ECU) for alternates and experts. The method used for calculating the sums to be reimbursed is based on the assumption that expenses will be paid both for days spent travelling and those spent attending meetings, even where these coincide. Thus, for a return journey of more than 1 000 km, lasting 12 to 36 hours, members are granted a flat-rate sum equivalent to three days' allowance.

10.97. This practice does not comply with the regulations adopted by the Bureau of the Economic and Social Committee itself, which stipulates that it is not permissible to draw concurrently for one day both the allowance granted for days spent travelling and that granted for each day's attendance at the meeting.

System for the payment of expenses

10.98. Expenses are reimbursed to those persons qualifying for them on the basis of standard forms filled in by each participant for every day of a meeting. The forms are transmitted to the relevant department which, according to the information provided by the recipient, pays over the expenses, either in cash on the day of the meeting (approximately 90 % of cases) or by bank transfer at a later date.

10.99. The procedure for the payment of expenses calls for the following comments:

- (a) payment of the bulk of the expenses (sums paid in cash) is made before the payment order has been drawn up and before the expenses have been formally authorized and the Financial Controller has given his approval. This procedure is an infringement of the Financial Regulation (Articles 32-48);
- (b) Article 48 of the Financial Regulation stipulates that the payments should, in principle, be made through a bank or Giro account. By systematically paying expenses in cash, the Committee has made the exception the rule.

10.100. In view of the Financial Regulation and the risks involved in cash payments, especially where large sums are involved, it is vital that this system should be changed.

Entry of meeting expenditure in the accounts

10.101. The payment order made out by the accounts department for each meeting includes sums already disbursed, those to be paid by bank transfer and those still to be paid to the recipients. The cost of the meeting is thus entered in the accounts and charged to the budget before total payment has actually been made.

Financial contribution by the Commission to a television channel

10.102. In October 1986 the Commission granted a subsidy of 1 Mio ECU to a television channel. The channel in question had been set up by a consortium of five European national television companies with the aim, amongst other things, of carrying out research and experimenting with multi-lingual programmes and employing multi-national news-gathering teams in the making of news bulletins.

10.103. The agreement was signed on 14 October 1986 and an initial amount of 800 000 ECU was paid on 15 October 1986.

10.104. The consortium subsequently ran into financial difficulties and the channel ceased broadcasting programmes at the end of November 1986. A first report, scheduled in the agreement for February 1987, on the progress of the research and experiments was submitted in March 1987. Once it had submitted this report, the consortium considered that it had acquitted itself of its obligations towards the Commission.

10.105. The Commission invoked the termination clause in the agreement and in July 1987 it terminated the agreement and asked the consortium partners to repay the financial contribution, plus legal interest of 8 %. Negotiations between the Commission and the consortium have not yet resulted in the repayment of this sum.

10.106. The granting of this contribution calls for the following remarks:

- (a) the Commission did not verify — as it should have done, at the latest at the time it signed the agreement — that the recipient's financial situation was sound. It is hard to believe that the problems encountered six weeks after the agreement was signed could not have been foreseen;
- (b) the consortium did not submit a detailed budget for the various stages of the work programme; in addition, the programme was drafted in excessively vague terms;
- (c) the agreement provided for the setting-up of a joint working group to examine the progress of the work and deal with any common problems; this group did not materialize. As a consequence, the Commission had no influence over the work, contrary to what had been agreed;
- (d) the Commission paid 80 % in advance after signing the agreement. It should have insisted on payment of

further instalments being linked to the progress of the work; for example, 30 % on signing the agreement, 30 % following an interim report and 40 % once a final report and accounts had been submitted. At present, the potential loss amounts to 800 000 ECU;

- (e) the Commission should have acted with more caution and considered the possibility of demanding a security.

EUROPEAN SCHOOLS

10.107. Initially, the European Schools' Board of Governors decided that the Commission's subsidy to the European Schools' budgets for 1987 should amount to 2 574,8 Mio BFR, (\pm 58,2 Mio ECU), that is, 67,5 % of total appropriations. Later, when the two supplementary and amending budgets were approved in April and December 1987, it increased the amount to 2 584 Mio BFR (\pm 58,4 Mio ECU).

10.108. In the general budget of the European Communities, however, this subsidy was limited to 57,7 Mio ECU. The instalments paid by the Commission total 57,3 Mio ECU (2 533,3 Mio BFR), which covers 69,6 % of the Schools' expenditure.

10.109. Considering that the agreement in 1957 between the Community of Six and the Board of Governors placed a ceiling on the Community's subsidy of 45 % of the School's budget and that, at the present time, the Commission is having to bear 69,6 % of the costs while having only one representative out of 13 on the Board of Governors, there is no denying that the figures resulting from the above comparison are indicative of a serious inconsistency in the distribution of budgetary powers and responsibilities. The fact is that the Schools retain full control over the level of their expenditure, just as the greater part of their revenue continues to depend upon decisions taken by Member States and is governed by the financial agreements concluded by the Board of Governors with external bodies, while the Commission makes up the difference.

10.110. In the short term, the relationship between the Community institutions and the Board of Governors ought to be formalized in order to bring this situation under control, and the Commission, to this end, ought to enter into an agreement mainly concerning the following issues:

- (a) the unambiguous distribution of budgetary powers between the two authorities concerned;

- (b) the re-establishment of a fair division of the costs between the contracting parties, in the spirit of the Statute of 12 April 1957 and the Agreement of 11 December 1957;

- (c) the adoption of a timetable for the transmission of the Schools' draft budget and revenue and expenditure account to the Community authorities, including the Court of Auditors, so as to usefully incorporate these facts into the Community budgetary and discharge procedure;

- (d) definition of the responsibilities and the scope of the powers attributed to the Commission and the Schools' supervisory authorities;

- (e) determination of the method for paying the Community's subsidy instalments during the financial year, bearing in mind the possible implications of supplementary budgets and/or management by provisional twelfths;

- (f) elimination of the Commission's current practice of dividing up its contributions by groups of Schools according to the host country; instead, the granting of an individual allocation, entered separately into the general budget, would increase transparency;

- (g) the attempt to find a solution to the use of the special levy on teachers' pay, particularly that of the Munich School, such as would comply with the first recital of Council Regulation (EEC) No 3821/81 of 15 December 1981.

10.111. In the longer term, the financial administration of the European Schools should be re-structured so as to achieve greater openness. This openness should be well-considered and carefully thought-out and either based on national contributions in proportion to the number of children per host country or else aimed at direct inclusion in the Community budget.

10.112. Under the agreement of 7 November 1977, the European Patent Office (EPO) contributes to the costs of the European School in Munich by an amount which is equal to the difference between the total budget and the sum of the School's other revenue, particularly:

- (a) school fees;
- (b) interest on bank deposits;
- (c) miscellaneous revenue; and

- (d) revenue accruing from other financial agreements. These last items of revenue include the contribution requested of the Commission for children of Community staff, or children considered as such, who have been admitted to the school.

10.113. For the purpose of calculating the Commission's contribution to the Munich School, the Board of Governors devised a formula which is based on the education costs per pupil. However, instead of taking the average cost of all the children attending the School, it confined itself merely to comparing the children of Community employees, and those assimilated to such children, with the children of EPO employees. On the basis of this formula, the School entered a Community contribution of 566 000 BFR (\pm 12 795 ECU) per child in its 1987 budget, whereas the EPO contribution stipulated was limited to 507 000 BFR (\pm 11 461 ECU) and the average cost for all the children to 294 000 BFR (\pm 6 646 ECU).

10.114. Although the Commission did not accept this demand (it only paid 76 %), it is still true that this method of calculation involves a constant risk that the Community budget will be forced to contribute a disproportionate amount, particularly since, unlike the EPO, the Commission is not entitled, at the end of the financial year, to repayment of any sums which it may have overpaid.

10.115. As in the past, the Munich School still considers the special levy on teachers' pay to be revenue within the meaning of the agreement mentioned in paragraph 10.112., and thus credits it to the EPO. In 1987, this levy was 7,1 Mio BFR (\pm 0,16 Mio ECU).

10.116. With regard to this attitude, it must be pointed out that, in the absence of any provision to the contrary in the Board of Governors' Decision, the objectives of the levy applied to teachers' pay are the same as those applying to the crisis levy affecting the salaries of European Community officials, as stipulated in EEC Regulation No 3821/81: it is intended to help overcome the specific difficulties of the general economic and social situation in Europe.

10.117. It follows that, even if, from the budgetary point of view, the School regards the levy as revenue, it may not be used for any purpose other than that defined by the Community legislation, and it is hard to accept that it should be used to reduce the contribution of a specific organization. Furthermore, the Munich School, in implementing the Board of Governors' Decision es-

tablishing the levy, only acts as an executive body, and as such may not alter the spirit of the rule it is called upon to implement.

10.118. In the light of the foregoing observations, the Commission is invited to press for a revision of the method used to calculate its contribution to the Munich School and to confer with the Board of Governors in order to find a use for the special levy affecting teachers' pay which is in line with the objectives of this levy.

10.119. Under the Belgian Royal Decree of 24 October 1986, salaries paid to Belgian teachers seconded to the European Schools 'may not exceed 50 % of the remuneration of the previous employment'. The consequences of this measure for the European Schools are threefold:

- (a) their revenue for 1987 suffered a global loss estimated at 78 Mio BFR (\pm 1,76 Mio ECU);
- (b) given that the national salaries are frozen at 50 % of their value before secondment, subsequent increases no longer affect them. Community increases, on the other hand, widen the difference between the Belgian salary and the European salary, and thus the amount to be paid by the School becomes ever greater;
- (c) the method used to calculate the severance grant allocated under the Regulations to teachers on leaving the European Schools takes into account the difference between the basic Community salary and the basic national salary. The limiting of the latter to a fixed amount which may not be increased means that the difference between the two salaries can only increase, thus imposing an additional burden on the Schools' budget, each time the Community salaries are increased. This decision by the Belgian authorities is an infringement of the Statute of 12 April 1957 and the Protocol of 13 April 1962 which set up the European Schools. It also amounts to an attempt by a Member State to evade a financial obligation at the expense of the Community budget.

10.120. Although some changes have been made, the legal framework of the European Schools, their financial administration and their administrative structure still lag behind the latest developments in Community law and in the structure of the Community, with which they have close ties of interdependence. In addition, the Schools' decision-making process is still very slow. This has meant that important changes, such as the revision of the Financial Regulation and the Regulations for Members of the Teaching Staff, which have been under consideration for years, have still not been carried out.

10.121. Considering that the Commission participates in the running of the Schools at all levels of responsibility, it would certainly be to its advantage to draw on its

immense experience in order to activate the reforms which are necessary, particularly in the organization of budgetary policy, control and management of staff rights.

(¹) OJ C 336, 15.12.1987, pp. 103-109; OJ C 357, 31.12.1983, p. 108.

(²) OJ C 357, 31.12.1983, pp. 107-108.

(³) OJ C 326, 16.12.1985, pp. 90-91.

(⁴) WEU: Western European Union;
NATO: North Atlantic Treaty Organization;
OECD: Organization for Economic Cooperation and Development;
ESA: European Space Agency.

(⁵) Report on the actuarial assessment of the pension scheme for officials and other servants of the European Communities at 1 January 1985. Council Doc. No 9919/1986 STAT 42 FIN 434 of 27.10.1986.

(⁶) OJ C 357, 31.12.1983, pp. 104-105.

(⁷) OJ C 221, 3.9.1979.

(⁸) OJ C 125, 17.5.1982, p. 51.

(⁹) Annex I, Part A, Section III of the budget.

Standardized percentage of people retiring on grounds of invalidity (‰)

Age	Data concerning the Communities 1975-84	French banks 1973-78
Men		
20	0,04	0,04
30	0,17	0,06
40	0,80	0,15
50	3,60	1,40
60	17,70	1,90
64	34,00	3,00
Women		
20	0,07	0,10
30	0,40	0,40
40	2,10	1,20
50	8,10	3,10
60	25,80	10,00
64	38,30	13,50

CHAPTER 11

Loans, borrowings and interest-rate subsidies

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INTRODUCTION

11.1. This chapter deals with New Community Instrument (NCI) loans and interest subsidies, European Atomic Energy Community loans (Euratom loans) and balance of payments loans (BP loans), as well as the borrowings contracted by the Communities in order to finance these three loan mechanisms.

11.2. As part of the annual budget procedure, the budgetary authority includes the sum of interest subsidies in the general budget and decides whether to include the budgetary guarantee for borrowing transactions in the form of token entries.

11.3. Community loans and borrowings are set out in the balance sheet of Community assets and liabilities. Interest subsidies relating to NCI loans, along with EIB loans from the EIB's own resources for reconstruction measures in areas of Greece and Italy which have been devastated by earthquake, are included in Chapter 69 of the general budget of the Communities, whilst interest subsidies relating to a pilot project for Portuguese small

and medium-sized undertakings (SMUs) and interest subsidies relating to cooperation with Mediterranean countries are set out in Chapters 77 and 96 respectively.

11.4. The Commission has a direct legal obligation to service and repay borrowings contracted by it on behalf of the Community. For this purpose the following Articles, which represent the budgetary guarantee for the above-mentioned Community borrowing mechanisms, are included in the budget as a precaution against any possible default by beneficiaries of the primary loans and guarantees:

- (a) Article 830, 'EEC guarantee for Community loans raised for balance of payments support';
- (b) Article 831, 'EEC guarantee for Euratom loans raised';
- (c) Article 832, 'EEC guarantee for loans raised to promote investment in the Community'.

In addition, Article 969 of the budget includes a guarantee for loans granted by the EIB to non-member States.

SUMMARY OF FINANCIAL INFORMATION

11.5. *Tables 11.1 and 11.2* give a summary of the various borrowing and lending mechanisms and the evolution of loans and borrowings during the financial year 1987 ⁽¹⁾.

OBSERVATIONS ON THE BALANCE SHEETS AND REVENUE AND EXPENDITURE ACCOUNTS OF THE NEW COMMUNITY INSTRUMENT AND EURATOM MECHANISMS

11.6. The Court examined the NCI and Euratom balance sheets as at 31 December 1987, as well as the statements of revenue and expenditure relating to the two mechanisms for the financial year 1987. The management of the accounting did not call for any specific observations.

AGREEMENT REGARDING THE AUDITING OF NCI LOANS IN THE MEMBER STATES

11.7. Since 1984 discussions have been taking place between the Court of Auditors and the Commission with a view to settling the question of the procedures to be followed by the Court in on-the-spot audits relating to NCI loans.

11.8. In 1985 and 1986, having first informed the Commission and the EIB of its intentions, the Court made independent audit visits to Italy and Greece to investigate measures carried out by government agencies and financed by NCI earthquake loans ⁽²⁾. It found that the EIB had approached the recipients of the loans under the provisions of the clause in the contracts concerning the audit of projects; the result was that the beneficiaries initially refused to accept an audit by the Court. After the Court's officials had explained that the interest subsidies were provided from the EC general budget, that there was also a budgetary guarantee for the Community loans and that the Court was responsible for the audit of these items under Articles 206(a) and 206(b) of the EEC Treaty, permission was finally obtained for audits to be carried out in both these Member States.

11.9. After completing the audits in Greece and Italy, the Court refrained from carrying out any further independent on-the-spot audits for a full year so as to avoid a repetition of the situation described above in another Member State, endeavouring in the meantime to

reach agreement with the Commission on the formulation of procedures for the conduct of similar audit visits in the future.

11.10. As the Commission was unable to produce a satisfactory solution in the course of the year, and since the Court cannot continue indefinitely to forgo its indisputable right to carry out audits in important areas such as the European Communities' lending and borrowing operations and is obliged to fulfil its audit obligations with regard to the budgetary authority, the Court decided to carry out some further independent audits as part of its work programme for the second half of 1987. For this purpose, undertakings were selected in two Member States which had received both ECSC and NCI funds from the European Communities. Notice of these visits, which took place in October and November 1987, was given via the Commission as part of the ECSC procedure.

11.11. As is customary under the ECSC procedure, the audit team from the Court included a representative of the Commission, and in neither case was the team allowed access to the NCI files, as the companies had not received authority from the EIB for an audit team from the European Court of Auditors to carry out an audit. The undertakings said that they particularly regretted having to make this response, which had been agreed beforehand with the EIB, especially as no audit restrictions were imposed in connection with lending operations in the ECSC sector, where the situation was, to all practical purposes, the same, except that the EIB was not the Commission's banking agent.

11.12. As the Court of Auditors observed in its annual report on the financial year 1986 ⁽³⁾, following the NCI IV Decision of 9 March 1987 ⁽⁴⁾ the Commission, in response to the Court's intervention, once again stated that it had not in any way changed its view that the resources managed by the EIB under the terms of a mandate conferred on it by the Commission were subject to external audit by the Court of Auditors in accordance with Articles 206(a) and 206(b) of the EEC Treaty and with the Financial Regulation. The Court called upon the Commission to enforce this viewpoint in its relations with its agent, the EIB.

11.13. Although from a purely legal standpoint it is ultimately the Court alone which decides how to carry out its on-the-spot audits, the Court did put forward compromise proposals based on the agreement between the Commission and itself concerning on-the-spot audits in the ECSC sector, which has worked for many years to the satisfaction of all the institutions involved. The key passage in the proposal says: 'The Court examines the documents which the Commission forwards to it

⁽¹⁾ The footnotes are listed together at the end of the chapter.

Table 11.1 — Principal characteristics of the systems employed in connection with NCI, Euratom, balance of payments, ECSC and EIB loans as at 31 December 1987

System	Legal base	Source of funds	Type of intervention	Method of management	Financial volume (Mio ECU)	Audit arrangements
NCI	EEC Treaty, Article 235; Council Decisions; EEC budget	Community borrowings contracted by the Commission on the financial market	Loan	The Commission decides whether projects qualify; loans are granted and managed by the EIB as the agent of the Commission and at the latter's risk	5 650 ⁽¹⁾	Court audit on the spot and on the basis of documents (Articles 206a and 206b EEC Treaty; Financial Regulation)
		Commission budgetary appropriations	Budgetary guarantee		p.m.	
		Commission budgetary appropriations	Subsidies in the form of interest subsidies	Granted by the Commission paid via the EIB	1 000 ⁽²⁾	
NCI earthquake	EEC Treaty, Article 235; Council Decisions; EEC budget	Community borrowings contracted by the Commission on the financial market	Loan	The Commission decides whether projects qualify; loans are granted and managed by the EIB as the agent of the Commission and at the latter's risk	1 000 ⁽³⁾ 80 ⁽³⁾ 100 ⁽⁴⁾	Court audit on the spot and on the basis of documents (Articles 206a and 206b EEC Treaty; Financial Regulation)
		Commission budgetary appropriations	Budgetary guarantee		p.m.	
		Commission budgetary appropriations	Subsidies in the form of interest subsidies	Granted as part of the Commission decision on eligibility, paid via the EIB	170	
EIB earth-quake	EEC Treaty, Article 130; EIB Statute	EIB own resources	Loan	Commission opinion; EIB autonomy	1 000 ⁽³⁾ 80 ⁽³⁾ 100 ⁽⁴⁾	No Court audit
	Council Decisions; budget	Commission budgetary appropriations	Subsidy in the form of interest subsidy	Granted by the Commission by way of an opinion; paid via EIB	100	Court audit on the basis of documents and on the spot (Articles 206a and 206b EEC Treaty; Financial Regulation)
Euratom	EAEC Treaty, Article 172; Council Decisions; EEC budget	Community borrowings contracted by the Commission on the financial market	Loan	Loans are granted by the Commission and managed by the EIB under an agency agreement with the Commission	3 000 ⁽¹⁾	Court audit on the spot and on the basis of documents (Article 172 EAEC)
		Commission budgetary appropriations	Budgetary guarantee		p.m.	
Balance of payments	EEC Treaty, Article 235; Council Regulation; EEC budget	Community borrowings contracted by the Commission on the financial market	Loan	Loans are granted by the Council and the EMCF takes the necessary steps to see they are managed	8 000 ⁽¹⁾	Court audit on the spot and on the basis of documents (Articles 206a and 206b EEC Treaty)
		Commission budgetary appropriations	Budgetary guarantee		p.m.	
EIB	EEC Treaty, Articles 129 and 130; EIB Statute	EIB own resources	Loan	Commission opinion; EIB autonomy	36 456 ⁽⁵⁾	No Court audit
	EEC Treaty, Article 235; Council Decision; EEC budget	Commission budgetary appropriations	Subsidies in the form of interest subsidies	Granted by the Commission paid via the EIB	1 000 ⁽²⁾	Court audit on the basis of documents and on the spot (Articles 206a and 206b EEC Treaty; Financial Regulation)
ECSC	ECSC Treaty, Articles 54 and 56	Community borrowings contracted by the Commission on the financial market	Loan	Granted and managed by the Commission	6 768 ⁽⁶⁾	Court audit on the basis of documents and on the spot (Article 78f ECSC)
		ECSC operating budget	Subsidy in the form of interest subsidy	Granted and managed by the Commission	170 p.a.	

⁽¹⁾ Ceiling set by the Council.

⁽²⁾ Interest subsidy on NCI and EIB loans for projects in Ireland and Italy, maximum 1 000 Mio ECU.

⁽³⁾ Ceiling set by the Council and applicable to NCI and EIB loans.

⁽⁴⁾ Commission proposal of 23.12.1987, doc. COM(87) 727 final.

⁽⁵⁾ Including 750 Mio ECU of own resources within the framework of NCI IV.

⁽⁶⁾ Loans outstanding.

Table 11.2 — Borrowing and lending operations in the financial year 1987

(Mio ECU)

System	Claims in respect of loans and borrowing commitments outstanding as at 31.12.1986		Operations carried out in 1987 ⁽¹⁾		Claims in respect of loans and borrowing commitments outstanding as at 31.12.1987 ⁽¹⁾
	At the ECU exchange rate of 31.12.1986	At the ECU exchange rate of 31.12.1987	New loans or borrowings	Repayment or amortization	
	(1)	(2)	(3)	(4)	(5) = (2) + (3) - (4)
Loans:					
— NCI	4 993,5	4 898,6	303,2	331,9	4 869,9
— Euratom	2 398,2	2 385,9	313,7	326,6	2 373,0
— BP	1 890,0	1 715,3	859,9	348,5	2 226,7
— ECSC (2)	7 001,6	6 885,7	969,3	1 086,9	6 768,1
Total loans	16 283,3	15 885,5	2 446,1	2 093,9	16 237,7
Borrowings:					
— NCI	5 202,2	5 062,7	611,3 ⁽³⁾	444,5	5 229,5
— Euratom	2 412,3	2 171,2	853,4 ⁽⁴⁾	524,7	2 499,9
— BP	1 890,0	1 715,3	859,9	348,5	2 226,7
— ECSC (2)	6 761,3	6 532,2	1 487,0 ⁽⁵⁾	1 330,4	6 688,8
Total borrowings	16 265,8	15 481,4	3 811,6	2 648,1	16 644,9

(1) At the ECU exchange rate of 31.12.1987.

(2) See separate annual report by the Court.

(3) Of which 211,2 Mio ECU for refinancing.

(4) Of which 307,9 Mio ECU for refinancing.

(5) Of which 342,6 Mio ECU for refinancing.

(including the EIB documents forwarded to it by the Commission). It informs the Commission of the projects which it wishes to be audited on the spot. The Commission requests the EIB audit committee to carry out these on-the-spot audits and the EIB audit committee carries them out. A representative of the Court of Auditors may participate in the audits at the request of the Court and the Commission is required to forward the observations of the audit committee to the Court.'

11.14. Contrary to the Court of Auditors' expectations, the Commission has not, so far, succeeded in implementing this very broad compromise proposal in its relations with its banking agent, the EIB.

11.15. On 23 December 1987 the Commission submitted a proposal for a Council Decision amending Articles 1 and 2 of Council Decision 87/182/EEC of 9 March 1987⁽⁵⁾ granting the Commission exceptional authority, within the framework of the NCI, to borrow an amount

of up to 100 Mio ECU — less any loans from own resources by the EIB — for the purpose of granting subsidized loans for reconstruction work in areas of Greece devastated by earthquakes in September 1986.

11.16. Control of the conduct of operations proposed within the framework of the Decision, including control of the proposed subsidized loans, is subject to the provisions of Article 10 of Decision 87/182/EEC⁽⁴⁾, which was not amended and which reads as follows: 'The financial control and audit of the Commission's accounts shall be carried out in accordance with the Financial Regulation applicable to the general budget of the European Communities. The lending transactions and management of cash holdings shall be covered by the discharge and audit procedures provided for in the Bank's Statute in respect of all its operations and exclusively by these procedures.'

11.17. Having regard to the legal position, which has not been challenged in the interim, the Commission again confirmed, on 25 April 1988, as it did following the NCI IV Decision of 9 March 1987⁽⁴⁾, that the wording of Article 10 of the decision could not be construed as limiting the Court's powers of audit.

11.18. In the Court's opinion it is now imperative that a solution be found which takes account of the provisions of the EC Treaties. As it is undeniably the Commission that is responsible for safeguarding the application of the EC Treaties in this very important area of the Communities' lending and borrowing operations, the Court calls upon the Commission to take the necessary steps, particularly where its agent, the EIB, is concerned.

11.19. In this context, the Court noted with interest the call to the Commission by the EIB Board of Governors asking the Commission to put forward proposals for a solution on the basis of the existing legal situation. The EIB is thus signifying its intention of collaborating constructively. In its recommendation of 7 March 1988 concerning the discharge for the financial year 1986, the Council of Ministers refers specifically to this matter. There is no need at this point to stress once again that this is a question in which the European Parliament has an interest.

OBSERVATIONS ON LEGALITY AND SOUND FINANCIAL MANAGEMENT

NCI Treasury

11.20. It appears appropriate at this point to give a brief outline of the operation of the NCI Treasury. Originally, all lending and borrowing operations under the NCI mechanism were back-to-back operations. Borrowings were only contracted in the light of the loan applications received. This meant that for a given borrowing there was only one corresponding loan, or a small number of loans, in the same currency, and the terms regarding interest rates and maturities were such that a situation of zero balances was achieved in the end.

11.21. The widening of the circle of potential borrowers to include SMUs led to the Commission's abandoning back-to-back operations in 1982, in order to be able to respond more flexibly to loan applications. This requirement led to the introduction of a reserve-financing system, the so-called 'NCI Treasury'. In accordance with the Council Decisions and on the basis of estimates of demand agreed between the Commission and the EIB, the Commission contracts borrowings and places them at the disposal of the EIB; the latter then passes them to the

recipients, by agreement with the Commission and according to the demand for loans. Under the NCI Treasury mechanism, one borrowing operation may correspond to many lending operations and, conversely, a single loan may be financed in one currency or in a mix of currencies from portions of various borrowings.

11.22. The rules relating to the operation of the NCI Treasury and the mutual obligations of the two parties have been laid down in cooperation agreements between the Commission and the EIB since the mechanism was introduced. All the financial flows associated with lending and borrowing operations as part of the maintenance of NCI liquidity pass through accounts held with the EIB in the name of the Commission, the so-called 'transaction accounts'. Up till the conclusion of the most recent cooperation agreement, which entered into force on 1 April 1987, the EIB paid interest on credit balances, whilst the Commission paid the EIB interest on any debit balances. The Commission alone was responsible for the results obtained from lending and borrowing activities under the NCI Treasury.

11.23. In its annual reports on the financial years 1983 and 1984 the Court of Auditors warned the Commission of the risks associated with this system ⁽⁶⁾:

- (a) the rates of interest paid by the EIB on what were, generally, credit balances on the transaction accounts were lower than the interest rates which the Commission had to pay on the borrowings which it contracted. These differences in interest rates resulted in a charge on the Commission's resources which has been reduced in recent years in response to the observations made by the Court ⁽⁷⁾;
- (b) it appears from the information supplied by the EIB that the loans are made at interest rates identical to those prevailing on the capital markets on the date they are granted. These rates may differ from the rates on the borrowings contracted by the Commission if market conditions have changed in the period between the two operations;
- (c) the terms and currencies of the loans rarely correspond to the terms and currencies of the relevant borrowings.

11.24. Since it is potentially possible for a combination of these factors to result in profits and/or losses, the financial flows of lendings and borrowings should, in the Court's opinion, be subject to regular scrutiny, so that it is possible at any moment to evaluate whether the overall balance of the operations is zero ⁽⁸⁾.

11.25. Following the observations made by the Court, the Commission and the EIB have come to a new arrangement, which took effect on 1 April 1987, producing considerable changes in the rights and obligations of the Commission and the EIB in the context of the NCI Treasury. As before, the EIB effects lending operations in the name, on behalf and at the risk of the Community. As regards the results of the EIB's management of the cash resources associated with the financial flows resulting from the lending and borrowing activities, however, the EIB's responsibility exceeds the normal responsibilities of a mere agent. Article 4 of the new cooperation agreement provides that the Bank is to assume responsibility for the management of the Treasury mechanisms, having regard to the fundamental decisions, is to bear the potential profits and losses arising from its management and undertakes to provide cover for any mismatch between the maturity dates of borrowings and lendings.

11.26. The new agreement states that in this way the net result on the transaction accounts for each borrowing and the use made of it ought to show a zero balance, with neither a gain nor a loss for the Community budget, except in the event of default on the loan and the securities for it. Until such time as the final balance is available, the Commission enters the annual figures for all activities under the NCI Treasury mechanism on the credit or debit side of one of its equalization accounts.

11.27. Even if the new agreement does thus take account of the wish expressed by the Court in previous annual reports concerning the need to exclude the risk that the Commission might have to bear losses resulting from NCI Treasury operations ⁽⁹⁾, it nevertheless gives rise to several observations.

11.28. First of all, it must be emphasized that even though under the new arrangement the EIB is indeed responsible for management of the NCI Treasury, this does not by any means signify that the Bank has assumed the same risks as were previously borne by the Commission under the old arrangement. The risks borne by the Commission were in fact inherent in the mechanism in its previous form. The new terms are, in contrast, completely different. The EIB will be entitled to administer the NCI Treasury resources as part of the overall management of its own resources, in accordance with the practice and principles of sound financial management followed by any bank, and its task will, in fact, be simplified further by the Commission's making available the funds for lending. Since the EIB's management of the NCI Treasury is not subject to the same pressures and limitations as were previously imposed on the Commission, if it discharges its responsibilities correctly the risks it runs are not likely to be in any way similar to those previously borne by the Commission.

11.29. The new arrangement provides that the EIB is to manage the transaction accounts in such a way that they finally balance. At the same time, however, it also provides that there is to be no interest paid on any credit or debit balance which may be shown against the accounts. If the calculation of the final balance on the accounts is to be of any significance, it ought to include the interest received by the EIB on its investment of the residue of borrowings made available to it by the Commission during periods when the funds have not yet been allocated to loans. It is possible that the effort to achieve a balance on the transaction accounts without taking account of this revenue could lead to the interest rates on the lendings being fixed at an unnecessarily high level.

11.30. The new agreement limits the Commission's freedom to repay borrowings early by making it subject to prior approval by the EIB. This limitation should not, however, be allowed to deprive the final recipients of the loans of the possible advantages of repayment of borrowings before maturity, when, because of favourable trends in financial markets, it results in a gradual reduction of the interest rates on the amount of the loans granted to them.

11.31. Although the responsibility for the management and results of the NCI Treasury mechanism has been transferred to the EIB, the Commission continues to do the administrative work associated with the contracting and management of borrowings. The Commission's responsibility for the administrative work associated with the borrowings continues to grow in the context of the new agreement, which states that the end result of NCI Treasury operations is the responsibility of the EIB. The EIB and the Commission should take this factor into account and envisage, by way of compensation, a reduction of the management charges levied by the EIB in connection with its management of the NCI and Euratom loans, with the exception of NCI Treasury loans.

European Investment Bank management commissions

11.32. In its annual report on the financial year 1984 ⁽¹⁰⁾, the Court recommended that the Commission should require the Bank to make available an annual account of costs and income relating to NCI and Euratom loans, to enable the Court to ascertain the extent to which the level of EIB management commissions is consistent with the costs which the Bank actually incurs. In its annual report on the financial year 1986 ⁽¹¹⁾ the Court

criticized the level of the management commissions levied by the EIB in respect of NCI and Euratom loans. Further consideration should be given to the introduction of a differential system of commissions, to take account of the administrative effort required by the various types of loan. In view of the unambiguous opinion expressed by the European Parliament ⁽¹²⁾ and that expressed by the Council of Ministers on 7 March 1988 in the course of the

discharge procedure for the 1986 financial year, the Court wishes to raise this matter yet again and calls on the Commission to provide it with detailed figures, so that it can assess the validity of the management costs charged to the Commission's account by the EIB. This is all the more necessary, as the Commission in its role of principal should already have taken the requisite steps itself. The Commission has not as yet complied with this request.

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- (¹) See also the Court's separate annual report on the ECSC.
(²) Annual report of the Court of Auditors on the financial year 1985, OJ C 321, 15.12.1986, paragraph 12.14 and annual report on the financial year 1986, OJ C 336, 15.12.1987, paragraph 14.31.
(³) OJ C 336, 15.12.1987, paragraph 14.29.
(⁴) Council Decision 87/182/EEC of 9.3.1987, OJ L 71, 14.3.1987.
(⁵) Doc. COM(87) 727 final, OJ C 20, 26.1.1988.
(⁶) Annual report on the financial year 1983, OJ C 348, 31.12.1984, paragraphs 14.18 — 14.25 and annual report on the financial year 1984, OJ C 326, 16.12.1985, paragraphs 14.15 — 14.19.

- (⁷) Annual report on the financial year 1983, paragraph 14.23(a) and (b), paragraphs 14.15. — 14.16 of the annual report on the financial year 1984 and paragraph 12.15 of the annual report on the financial year 1985.
(⁸) Annual report on the financial year 1983, paragraphs 14.24 — 14.25.
(⁹) Annual report on the financial year 1984, paragraph 14.19.
(¹⁰) Annual report on the financial year 1984, paragraph 14.23.
(¹¹) Annual report on the financial year 1986, paragraph 14.24.
(¹²) Decision of the European Parliament of 18.4.1986, OJ L 150, 4.6.1986.

PART II

European Development Funds

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INTRODUCTION

1. The European Development Funds (EDFs) constitute the main instrument of the European Economic Community's (EEC's) policy of cooperation with 66 developing countries in Africa, the Caribbean and the Pacific (ACP States). Each EDF's allocation is separate from the general budget of the European Communities and is financed by contributions from the Member States, which are fixed according to an *ad hoc* cost-sharing formula. The implementation of each EDF is governed by a specific financial regulation.

2. The following paragraphs are concerned, first of all, with observations on the financial management of the EDFs. This is followed by a critical analysis of micro-projects and emergency aid.

OBSERVATIONS ON THE FINANCIAL MANAGEMENT

3. During 1987, the third EDF was finally wound up and the last remaining balances transferred to the fifth EDF.

4. The situation of the third, fourth, fifth and sixth EDFs at 31 December 1987 is summarized in **Table 1**;

the detailed situation of the latter two Funds is presented in the second part of Annex III to this report.

Financial implementation of the projects

5. The Court's examination of works contracts, other commitments, payments and the EDF accounts in 1987 disclosed certain deficiencies in the Commission's supervision of the financial implementation of projects, in particular those mentioned in the following paragraphs.

Special conditions of works contracts

6. The Commission agrees to finance works contracts which include special conditions concerning the currency of payment and allowing for compensation for price fluctuations. These special conditions could enable contractors to make windfall profits when the contractual currency is devalued in terms of the ECU (see the Court's annual report on the financial year 1986, Part II, paragraph 21).

7. The Court examined 24 works contracts for which invitations to tender were issued in 1986 and 1987, totalling approximately 130 Mio ECU. Eleven of these, totalling 100 Mio ECU, contained provisions which could lead to excessive sums being charged to the EDF in

Table 1 — Utilization of the third, fourth, fifth and sixth EDFs at 31 December 1987

Resources and utilization	3rd EDF	4th EDF	5th EDF	6th EDF
	Yaoundé II (Expiry: 1976)	Lomé I (Expiry: 1980)	Lomé II (Expiry: 1986)	Lomé III (Expiry: 1990)
Disbursements:				
— prior to 1987	885,1	2 890,4	2 658,9	116,7
— during 1987	2,2	70,2	412,9	352,6
Total amounts disbursed	887,3	2 960,6	3 071,8	469,3
Not yet disbursed:				
— committed	—	229,9	1 653,0	7 030,7
— not committed	—	173,3	1 382,9	1 798,2
	—	56,6	270,1	5 232,5
Amount allotted	887,3	3 190,5	4 724,8	7 500,0
Sundry revenue:				
— prior to 1987	—	6,1	189,7	—
— collected in 1987	—	—	15,2	11,7
Total resources available	887,3	3 196,6	4 929,7	7 511,7

(Mio ECU)

compensation for price movements arising from devaluations. As a large proportion of each works contract is denominated in a European currency or in ECU at a rate fixed on a date previous to that of the offer, only that proportion of the contract denominated in local currency should be subject to revision.

8. Furthermore, the contracts differed widely as regards the price fluctuation percentage below which no compensation could be claimed, ranging from a minimum 10 % to the complete omission of such a threshold. Similarly, the basis on which compensation was calculated varied considerably from one contract to another, from the application of arbitrary formulae based on local price indices to the reimbursement of all increased costs actually incurred by the contractor, for which supporting documents were required.

9. As all ACP currencies except those linked to the French franc are depreciating, often very rapidly, the financial consequences of the deficiencies mentioned in the previous paragraphs are considerable, and there is an urgent need to adopt directives setting out the sort of terms for financing contracts which will be acceptable to the Community.

Commitments and payments

10. The Commission finances the contracts and executes the payments largely on the basis of supporting documents submitted by its delegations in the countries in question. The department responsible for authorizing the payments and the Financial Controller at the Commission do not systematically avail themselves of the means to verify that the Financial Regulation has been observed, in particular that the amount of the expenditure is correct and that the principles of sound financial management have been adhered to. For example, the Court was unable, despite its best endeavours, to trace the special conditions governing eight out of 32 works contracts for which international invitations to tender had been issued, which implies that payments concerning these contracts were cleared without any reference being made to the contractual conditions. In some cases, official instructions amending contract prices were not on file, nor was the proof of origin of supplies or copies of bank guarantees. Payments totalling 0,3 Mio ECU on one works contract examined were authorized without any indication of how the interim payments had been calculated, and for another payment, of 0,2 Mio ECU, supporting documents were missing entirely.

11. The need for rigorous checks by the authorizing departments is demonstrated by a number of transactions examined by the Court which were not fully in accord with the principles of legality, regularity and sound financial management. Illustrative examples are the payment of an advance greater than the commitment entered into on the basis of the estimate, the disbursement of part-payments which exceeded those contractually due

and the crediting of sums to imprest accounts without the estimates making any mention of the procedures to be followed for checking these imprests. One supply contract was authorized despite being denominated in a currency other than that of the bid, at an additional cost of 71 000 ECU to the EDF. Furthermore, one service contract was financed 10 months after work had started.

12. Amongst various other measures, the Commission ought to draw up project files containing complete supporting documentation for all decisions to award contracts, together with all contractual documents of financial consequence. It should also insist on full supporting documents being submitted for all payments. Instructions should be issued to authorizing staff which define their responsibility for ensuring that the supporting documents submitted are sufficient and correct.

Accounts

13. The Court noted that a number of shortcomings in the accounts further weaken the Commission's control over the financial implementation of the EDF:

- (a) many transactions which the authorizing departments have not been able to settle have simply remained on suspenseaccounts, some for over five years;
- (b) the accounting for outstanding recovery orders during the financial year is not sufficiently transparent, in particular the revenue still to be recovered is not precisely identified, even though Article 16 of the Financial Regulation applicable to the sixth EDF requires the accounting officer to do all in his power to ensure that EDF resources are recovered and to inform the authorizing officer of any delays;
- (c) bank transactions are recorded by the Commission only after long delays, the composition of the balances on the accounts 'Cash in transit' and 'Unsettled items' had still not been identified three months after the end of the financial year and cash balances cannot be readily checked against bank statements;
- (d) the division of duties within the accounting officer's department is still not adequate for the purpose of ensuring the security of the EDF assets;
- (e) the EDF accounts show 2,8 Mio ECU in excess commitments concerning some risk-capital projects for which the EIB has reduced the finance initially granted.

Cash management

14. The internal agreements and financial regulations require the Commission to make an annual estimate of cash requirements for each EDF and to call these sums up from the Member States, which credit them to special accounts in the name of the Commission at the national Treasury. In 1987, the Commission continued to call up the remaining fifth EDF contributions and used them in part to finance disbursements under the fourth and sixth EDFs. During 1987, cash balances varied between 150 and 320 Mio ECU, and payments totalled 837,9 Mio ECU.

Calls for contributions

15. The amounts of the quarterly contributions for the financial year 1987 were notified in December 1986. Seven of these contributions were paid late and for 13 of them the amount paid was incorrect. These errors could have been avoided had the amount of each quarterly contribution been calculated for each Member State by the Commission as soon as the applicable rate of exchange had been established.

Treasury accounts

16. Under Article 4 of the Financial Regulation applicable to the fifth EDF, the Commission is required to keep its cash balances in national currencies in the proportion in which each Member State's currency enters into the composition of the ECU. The sums credited to the Treasury accounts were not withdrawn in a systematic manner, with the result that large imbalances occurred in the distribution of the funds. For example, during the second quarter of 1987, only 40 % of the Federal Republic of Germany's contribution was withdrawn, compared with 70 % of that of France and the United Kingdom, and almost 100 % of the Italian contribution. The drawings on the Irish Treasury account were particularly irregular and two of that country's contributions remained untouched during the second quarter of 1987.

Bank accounts in Europe

17. The Commission maintains an unnecessarily large number of bank accounts in Europe, which makes its cash management cumbersome. There is no evident justification for keeping a second bank account in each of six Member States. Two of these accounts have remained

unused for several years, and the other four are very little used. A minimum total balance of 20 Mio ECU was kept on these six accounts in 1987.

18. Conversely, no separate bank account is kept for contributions for Stabex transfers, as required by Article 55 of the sixth EDF Financial Regulation, and the large and unpredictable sums involved in Stabex transfers continue to be the main obstacle to an orderly drawing-down of contributions.

19. Different rates of interest are paid on bank accounts denominated in ECU. The Commission should negotiate a uniform rate, based for example on the daily Libor values, or reconsider the desirability of maintaining accounts at banks which do not offer competitive remuneration.

Stabilization of export earnings

20. Under Article 160 of the Third Lomé Convention, beneficiary States are entitled to receive transfers equal to their loss of earnings in ECU on exports to the EEC or, for certain States, to the world market. However, if the local currency depreciates by more than 10 % from the average of its value over the previous four years, the amount of the transfer is reduced by the application of paragraph 4 of this Article, which provides that fluctuations greater than 10 % shall not be taken into account when establishing the exchange rate of the local currency in terms of the ECU. Malawi, which suffered a loss of 14,2 Mio ECU in its export earnings, received a transfer of only 2,4 Mio ECU for the sole reason that it had been steadily devaluing its currency. Reductions of similar proportions have been suffered by Gambia, Western Samoa and Sudan, and certain countries have forfeited all right to a transfer. As a result of the way this Article has been applied, the objective of the system of stabilization of export earnings, which is to help safeguard the purchasing power of the countries concerned, has been very imperfectly achieved.

21. The very sketchy reports submitted to the Commission on the use of Stabex transfers by the beneficiary countries continue to constitute the major exception to the requirement for detailed supporting documentation which is applicable to all other aspects of financial cooperation. The Commission should extend its practice, accepted in 1987 by Sao Tome, of paying the transfer directly to the suppliers in the name and on behalf of the beneficiary country, and should encourage strict application of the agreement, confirmed in many indicative programmes signed under the Third Lomé Convention, to use counterpart funds to supplement other EDF finance.

OBSERVATIONS ON THE MICRO-PROJECTS

22. The early years of Community development aid were marked by the clear priority that was given to large-scale projects which mainly benefited urban centres. In order to meet the specific needs of local communities, the Lomé Conventions have introduced a new instrument of cooperation between the ACP States and the Community, namely micro-projects, consisting of small-scale projects which are more fully integrated into the economic and social fabric and are intended to create the conditions, at local level, under which the populations of these countries can develop in a more autonomous and self-reliant way.

23. The EDF financed 71 annual micro-project programmes (around 2 000 projects submitted by 35 ACP States) under the First Lomé Convention, and more than 100 under the Second Lomé Convention (around 8 000 projects submitted by 42 ACP States). The share of micro-projects in the EDF allocation has also increased, illustrating the greater role they have to play in the development process. *Tables 2 and 3* indicate the amounts allocated to the micro-projects under the first two Lomé Conventions and summarize the financial implementation of the programmes as at 30 September 1987.

24. The following observations review the micro-project programmes and micro-projects under the First and Second Lomé Conventions. As the implementation of the micro-project programmes approved to date under

the Third Lomé Convention has only just got under way, it is not possible, given the facts available, to assess the situation at this stage ⁽¹⁾.

*Legal basis and implementing directives***General framework and scope of the micro-projects**

25. The First Lomé Convention provided for a contribution by the EDF, on an experimental basis and with an upper limit of 20 Mio ECU, to the financing of micro-projects. The Second Lomé Convention fully sanctioned this type of activity which since then has been part of the Community's proven financial and technical cooperation procedures and is therefore no longer limited by a global ceiling. The share of micro-projects in each beneficiary State's indicative programme is now governed only by its capacity to absorb this form of aid, its needs and its priorities. Moreover, the Fund's contribution to each micro-project, which was limited to 75 000 ECU under the First Lomé Convention, was increased to 150 000 ECU under the Second ⁽²⁾.

26. The Lomé Conventions firmly established the rural vocation of the micro-projects, with a view to opening up

⁽¹⁾ The footnotes are listed together at the end of Part II.

Table 2 — Micro-projects financed under Lomé I and Lomé II as at 30 September 1987

Conventions	Headings	Financing agreements ⁽¹⁾	Payments	
		(1)	(2)	(3 = 2/1)
		1 000 ECU	1 000 ECU	%
Lomé I	Indicative programme total,	3 137 056	2 934 503	94
	of which:			
	Micro-projects			
	— ACP	18 519	17 531	95
Lomé II	— OCT	1 735	1 461	84
	— Total	20 254	18 992	94
	Indicative programme total,	4 360 915	2 963 787	68
	of which:			
	Micro-projects			
	— ACP	65 992	47 530	72
	— OCT	1 980	1 245	63
	— Total	67 972	48 775	72

⁽¹⁾ With certain exceptions, these sums were all committed globally, by beneficiary State.

Table 3 — Micro-projects financed under Lomé I and Lomé II, by beneficiary State, as at 30 September 1987

(1 000 ECU)

Country	4th EDF		5th EDF	
	Commitments	Payments	Commitments	Payments
Benin			1 450	1 438
Burkina Faso	1 125	1 125	3 055	2 283
Burundi	1 161	1 140	1 677	1 043
Cape Verde	56	56	246	213
Central African Rep.	130	82	406	358
Dominica			189	155
Ethiopia	858	808		
Gambia	44	44	214	214
Guinea	821	716	2 017	1 511
Guinea-Bissau			1 300	892
Grenada	243	225		
Lesotho	280	253		
Malawi	893	893	2 121	1 318
Mali			500	240
Mauritania			108	104
Niger			1 500	1 450
Rwanda			1 800	1 702
Saint Lucia	65	65	11	11
Seychelles	380	380	582	423
Sierra Leone	740	621	2 210	798
Sudan	426	312	1 400	1 131
Swaziland	75	64	818	523
Tanzania			1 500	856
Chad	380	353	1 000	395
Togo	375	283	1 935	1 560
Tuvalu	201	201	148	148
Uganda			1 100	298
Western Samoa	660	660	50	50
Comoros			300	59
Cameroon	403	403	457	355
Côte d'Ivoire	300	270	5 040	4 581
Fiji	995	995	3 735	2 882
Ghana	855	850	500	477
Guyana	166	166		
Equatorial Guinea			145	131
Jamaica	298	298		
Kenya	2 407	2 407	6 808	5 436
Kiribati			173	142
Liberia	300	298	2 000	1 546
Madagascar	2 060	2 060	4 730	3 678
Mauritius			2 141	1 769
Papua New Guinea	515	515		
Senegal	340	316	2 900	2 443
Suriname	452	243		
Trinidad and Tobago			148	148
Zaire			483	483
Zambia	265	265	2 120	316
Zimbabwe			6 555	3 617
Vanuatu	470	426	420	354
Djibouti	315	228		
Netherlands Antilles	150	150		
New Caledonia	500	500	530	505
French Polynesia			1 350	660
Solomon Islands	550	320		
Wallis and Futuna			100	79
Total	20 254	18 992	67 972	48 775

and developing the countryside, while at the same time also allowing this instrument to be used in an urban context.

Selection criteria for the micro-projects

27. In accordance with the specific eligibility criteria set out in Article 15(1) of Protocol No 2 to the First Lomé Convention, and again in Article 146, paragraph 1(c), of the Second Lomé Convention, micro-projects must:

- (a) meet a real, priority need at local level (this condition being fulfilled primarily by an initiative taken by the local community, as required by Articles 16 and 147(1) of the above texts);
- (b) ensure the active participation of the local community.

28. The forms this participation is required to take are defined by Article 16 of Protocol No 2 to the First Lomé Convention, and Article 147 of the Second Lomé Convention: in order to guarantee the viability of a project, these provisions specify that the financing of micro-projects shall be tripartite in structure and shall stem from:

- (a) the beneficiary community (in the form of a contribution in money or kind according to its means);
- (b) the ACP State (in the form of a financial contribution or the use of public equipment) ⁽³⁾;
- (c) the Fund.

The Second Lomé Convention confirms certain rules of application defined by the implementing directives under the First Lomé Convention and requires that the three participants' contributions be mobilized at the same time, as soon as a project has been approved, and that the total contribution by the ACP State and the local community concerned must normally be at least equal to the grant requested from the Fund ⁽⁴⁾.

29. The viability of a micro-project also depends upon its being suited to the local economic and social structures and, in particular, to the available work-force's level of training. The project must be readily assimilable by its

future users in order to facilitate the dissemination of knowledge and know-how.

30. The local community undertakes to play its part in maintaining and running the project, in conjunction with the national authorities if necessary.

The role of the Commission delegate

31. The overall financing decision is taken by the chief authorizing officer of the EDF, at the suggestion of the delegate, at the conclusion of the appraisal phase of the annual micro-project programme. The Commission then proceeds immediately with the commitment for the total allocation of the annual programme.

32. The financing agreement is merely an outline estimate of future requests from the local communities which will be subject to specific financing decisions. The latter are taken by the ACP State concerned 'with the agreement of the Commission', according to the terms of the First Lomé Convention. The Second Lomé Convention confers full responsibility for approving the projects on the delegate.

Appraisal of the micro-projects

Devolution of responsibility for approving projects

33. Under the First Lomé Convention, the preparation of the financing proposal is the responsibility of the delegate, whilst approval of the specific financing decision comes under the competence of the Commission. The devolution of responsibility for approving projects to the delegate by the Second Lomé Convention is intended to expedite the procedures and reduce the periods within which the initiatives of the local communities are acted upon, a major innovation in the Second Convention which had already been adumbrated by former practice. An examination revealed that the Commission delegations and departments had not always respected this redistribution of their tasks.

34. Although the intervention of the delegate ought to be sufficient, the delegations do not systematically exercise their responsibility with regard to financing decisions and transmit the micro-projects to the Commission for approval as and when the requests for financing arrive from the ACP State concerned.

35. This procedure does not comply with the instructions concerning implementation of the aid for micro-projects — characterized in particular by the devolution of the decision-making power — to the extent that, in the first instance, it saddles the departments in Brussels, which are occupied with the financially most important projects, with analysing projects for which they have neither all the information nor the time required. Thus, the Senegal delegation submitted to Brussels for approval a project for an initial sum of 13 786,25 ECU and the Gambia delegation did the same for projects totalling 15 536 ECU and 20 706 ECU respectively.

36. Secondly, forwarding measures or estimates to the Commission for approval prolongs the decision-making process, which is regrettable in the case of annual programmes.

37. Similarly, the question of direct assessment of micro-projects by the Commission is sometimes raised at the programming stage. In certain cases, the option of submitting more than one programme per year has been abused. Thus, Swaziland submitted seven micro-project programmes in two years, each with a total appropriation of an average 36 000 ECU. Such small sums could have been grouped each year under one single programme, enabling the projects to be approved subsequently by the delegate and avoiding unnecessary delays occasioned by multiple programming.

The existence of a real priority need at local level

38. When an ACP State submits a request for the financing of a micro-project, the delegate is called upon to identify and assess the need the project is supposed to respond to. Only the existence of a priority need originating from the local community which is to receive the benefit justifies the implementation of a micro-project rather than any other aid instrument. The Court, however, noted cases where the delegates had not always checked a project's conformity with this criterion as carefully and as rigorously as they were required to.

39. In the case of several micro-project programmes audited during Court visits to Madagascar in 1985 and the Côte d'Ivoire in 1987, the Commission delegations were not aware of the national authorities' selection criteria for the projects, whence the difficulty of checking whether there had been any deviations from the rules or abuses, though these latter cannot be definitely ruled out.

In Madagascar, certain investments financed under the micro-project heading did not, by their very nature, correspond to the description of a priority need on the part of the local communities. Cases in point are a car, assigned to a government department, whose use for the purposes of the micro-projects could not be ascertained, and equipment destined for the 'Regional University Centre'.

40. The initiative is supposed to be taken by the local community which will benefit from the project, but, out of a sample of 28 micro-project programmes monitored by the Commission, only one third of the schemes stemmed from an initiative taken by the community concerned. In half of the cases examined, the initiative actually came from the administration, the other sources of initiative being local NGOs or the EDF departments⁽⁵⁾.

41. The risk of failure in the case of schemes that do not stem from an initiative on the part of local communities is considerable, insofar as the requirement for a real, priority need on the part of the latter cannot be satisfied when an initiative by national authorities is substituted for one by the local community. This was the case in Togo, Madagascar and Kenya, where several projects were abandoned after completion, and others even before their implementation, as they did not correspond to the needs of the people who were supposed to benefit from them.

42. On the other hand, the intervention of the central management organization is justified particularly in cases where the population is not able to identify and express a real, priority need in precise and appropriate terms, because of the very nature, for example, of the proposed project, with which the local community may be unfamiliar. The national authorities' task is to determine the exact nature of the problem and the type of scheme likely to resolve it, and to reformulate the request. For example, in one particular rural zone, the population, faced with health problems, in some cases asked spontaneously for a community clinic to be set up, whereas, in the case in point, the origin of the diseases lay in the consumption of contaminated water. The national authorities therefore asked for new water points to be installed (such as wells and drill holes), thus reformulating the request. A health education operation, aimed at making the population concerned aware of the best possible way to adapt water point installations to their needs, therefore proved necessary.

Guarantee of the active participation of the local community

43. The local community's contribution can take the form of a contribution in cash or in kind, or the supply of services. In several of the micro-projects audited, no evidence of local community participation was to be

found. It was discovered, particularly in Senegal, that certain projects are financed 100 % by the Fund with no contribution, in any form whatsoever, from the local population. Thus, the Dahra and Mbeuleucke water supply systems, which were completed in 1986, were entirely carried out by the Soda-TP company, the State and the beneficiaries having failed to participate, financially or otherwise.

44. The local community is required to participate actively in the execution of each micro-project. Their contribution should not be assessed globally, by comparison with the annual micro-project programme as a whole. Thus, the 100 % financing by the Fund of eight projects in Madagascar as part of the first programme under the Second Lomé Convention does not meet the eligibility requirements for micro-projects. This observation is in no way affected by the absence of EDF assistance in the financing of 26 other schemes included in the programme, thus bringing EDF aid to 50 % of the programme's total allocation. This argument was, however, advanced by the Commission right from the programming stage, as is revealed by certain proposals made in Brussels, particularly in February 1985, regarding the allocation of appropriations. The delegate should, in any case, have checked that the local community was actively involved in each micro-project.

45. Contribution in kind or supplies of services by the local community or State must amount to a real, effective and active contribution. Making technical advisors, recruited under other water-supply projects financed by the Fund, available, as the Central African Republic did for the first micro-project programme under the Second Lomé Convention, does not satisfy the criteria for micro-projects.

46. Verification by the delegate of the active participation of the local community is all the more important since it constitutes a reliable indication of the project's suitability with regard to the population's needs. In addition, involving the population not only in the planning but also in the execution of micro-projects:

- (a) makes the beneficiaries feel more responsible;
- (b) helps the villagers to look upon the projects as their own;
- (c) increases the likelihood of the projects being maintained;
- (d) constitutes a way of training and educating the beneficiaries.

Viability of the micro-projects

Mobilization of the contributions

47. Before endorsing the financing of each individual project, the delegate should have proof that the various contributions in cash, goods, equipment and services by the three participants can be mobilized at the same time and are immediately available. On examination, it appears that this has not always been the case, notably in Burkina Faso, where the audits carried out by the Court have revealed that there have been difficulties in mobilizing the villagers' financial contribution, with resultant delays in the execution of the micro-projects.

48. The same failings affect the participation of the ACP States. Thus, in Fiji, a shipbuilding project was still not finished four years after it had started, because of the State's failure to provide its contribution. In Malawi, a number of micro-projects, such as building work on schools, houses and post offices under the sixth programme, financed by the fifth EDF, were also delayed for months owing to the lack of State contribution. The construction of an educational centre, under the same annual programme, was seriously delayed because the land on which the centre was to be built was not available when work was due to begin. Financial or budgetary constraints, administrative difficulties and lack of coordination between authorities or ministries with parallel powers are often cited as reasons for the State's failure to fulfil its obligations. However, the ACP State's capacity to meet its obligations is one of the factors which the delegate must take into account when assessing a project's viability.

Assimilation of the micro-projects by the users

49. If the expected results are to be attained rapidly, the micro-projects should be able to be easily and rapidly assimilated by their future users. The fact that a project is unsuited to the capacities of its potential users may lead to its being completely abandoned, as happened in Madagascar, where the 1982 annual programme provided for the financing of equipment for a fishing cooperative. According to a report drawn up in April 1983, the cooperative never became operational and the boats rotted at the quayside owing to the lack of financial resources with which to train the fishermen. On a more general level, in order to prevent the under-utilization of the equipment supplied, it is therefore necessary to:

- (a) use simple techniques for the micro-projects;

- (b) provide for a training section in each micro-project;
- (c) ensure that the micro-projects, by virtue of their technical conception, are able to be operated autonomously within a short period of time;
- (d) identify the economic constraints on the users.

50. The prospect that the project can be easily assimilated is an important element in its viability and should be taken into account by the delegate. In practice, this condition is linked to providing the local community with the necessary equipment. The Court in fact observed, during an audit visit to Sierra Leone in 1984, that the community clinics built under the fourth EDF were rarely or never used because the Government had supplied neither furniture nor medical equipment, although it had committed itself to doing so in the financing agreement signed in 1977. Similarly, the Tengrela community centre for women in Burkina Faso, which had been designed to operate both as a maternity and a community centre, was not able to serve the first function for lack of the necessary equipment.

51. The project's operational autonomy and its assimilation by the population may also be jeopardized by recurrent costs which are too heavy for the local community to bear, as the Court observed during the audit it carried out in 1986 in Niger, where the local communities were unable to meet the costs of most of the schemes. More generally, it is important to assess beforehand the economic and financial constraints on the beneficiaries which affect the success of the projects.

Social aspects of the micro-projects

52. Another essential feature of a project's viability lies in its suitability to be integrated into the existing social and cultural structures.

53. Projects can more easily be integrated if the recipient community is a cohesive one. Open or latent conflicts within the same village, or between several villages, make it difficult to carry out a project effectively. The prior existence of some form of village organization (for festive, cultural, sports or religious purposes, etc.), which helps to eliminate this type of drawback, constitutes a guarantee that the population will be motivated and prepared to collaborate in the future.

54. It is also important to consider the socio-economic relations within a given community when assessing the viability of a project. Thus, in Niger, wells were sunk in

private plots of ground, each well being designed to serve the landowners as well as three further families. Only when the work was finished did the promoters realize that collaboration of this kind between landowners and their tenants was unheard of in that community.

55. Furthermore, it has frequently been demonstrated that projects, particularly economic ones, destined for a community where pronounced inequalities exist, emphasize the latter, with perverse results. Thus, in Rwanda, according to a study carried out in 1985 at the Commission's request and entitled 'An assessment of small development projects', only the most prosperous villagers, who were able to pay the charges, benefited from the water-supply project. In the Côte d'Ivoire, a scheme financed by the Fund consisted of making a tractor and farming equipment available to a group of four peasant farmers. During its visit in 1987, the Court observed that their crops had been burned by the other farmers in reaction to the inequality thus created.

Implementation and follow-up of the micro-projects

Role of the national authorities

56. The beneficiary communities are not always able, for want of adequate management capacity, to supervise the implementation of projects by themselves. It is therefore beneficial, especially in the absence of any local administrative structures, to make use of a central, independent department entrusted not only with preparing annual programmes, but also with assisting the local communities in formulating their requests and in implementing the projects, and checking the execution and, *ex post*, the correct utilization of the projects carried out.

57. The checks carried out suggest, however, that the authorities entrusted with the central coordination of micro-projects do not always enjoy the requisite autonomy and powers.

58. Thus, in Malawi, a study carried out in 1983 highlighted the fact that frequent changes in the State administrative system during the three preceding years had had a particularly adverse effect on the department responsible for the management of the micro-project programmes. In 1987, the delegate confirmed that this problem and the ensuing delays were persisting. As early as 1981, the Court, following an audit visit to Malawi, pointed out that it would be very useful for the delegation to recruit a local employee who could be made available to the recipient State. More generally, in view of the scale of the financing granted to certain countries for the micro-project programmes, greater use ought to be made

of local consultants or, in special circumstances, competent technical assistants, with the aim of backing up weak central management bodies and preventing the drawbacks of piecemeal management.

Cost of technical assistance and complementarity of the micro-projects

59. The growth in the size of the micro-project programmes under the fifth EDF has, in fact, encouraged recourse to technical assistance so as to help the bodies coordinating and managing the programmes or, in the absence of such bodies, performing similar functions.

60. Contrary to the situation in the case of conventional projects, committing funds for the financing of technical assistance under a micro-project programme does not require an *ad hoc* proposal for the allocation of appropriations. It is thus impossible to check amounts allocated for this purpose by the micro-project programmes on the basis of the accounts. The delegations' reports contain no breakdown of the amounts devoted to technical assistance.

61. The Commission considers, in any case, that the cost of technical assistance should not exceed 10 % of the Funds' contribution. Cases of this ceiling having been exceeded have nevertheless been found amongst the very few commitments which have given rise to an estimate. In Tanzania, for example, technical assistance represents 15 % of the allocation for the fifth EDF's second programme, without any apparent justification.

62. In Niger, a Court audit visit in 1986 found that some of the State administration's operating costs for coordinating the micro-projects were being charged to the EDF, so that the aid became akin to a subsidy to the national budget.

63. When evaluating the cost of technical assistance, account should be taken of the specific nature of the micro-projects, which are small-scale, numerous and geographically dispersed and which without technical assistance would in many cases be doomed to failure. Expenditure relating to technical assistance can, however, be kept within reasonable limits, in particular by linking micro-projects, as far as possible, to other development projects. This step makes it possible, on the one hand, to complete the development projects by setting up small social infrastructures and, on the other, to give the micro-projects the benefit of the means of transport and technical assistance implemented for these operations. Apart from the logistical support which it allows, this solution makes it easier to monitor the micro-projects.

64. This idea of complementarity, which is intended to give rise to a synergy of all the measures undertaken, has not always been made use of. In practice, difficulties regarding transport, supplies of fuel and other goods have considerably delayed the micro-projects in Sierra Leone, as revealed in a delegation report. In Malawi, had technical assistance been available in the vicinity of the micro-projects, the use of unsuitable equipment and techniques in many projects could have been avoided.

Financial execution of the micro-projects

65. The rate at which appropriations committed for micro-projects are used is roughly identical to the corresponding rate for the indicative programmes as a whole, as shown in **Table 2**. By 30 September 1987, of the amounts granted for financing decisions under the fourth EDF, 95 % of the funds allocated to micro-projects had been disbursed and 94 % of those allocated to indicative programmes had been disbursed. As regards the fifth EDF, the rate of disbursement was 72 % for the micro-projects and 68 % for the indicative programmes, even though the agreement expired on 28 February 1986. These figures show that so far the micro-projects have not really been carried out any faster than the other instruments provided for by the Lomé Conventions, which is contrary to the aim of carrying out a project rapidly to meet the priority need of local communities.

66. The need for more speedy implementation of micro-projects does not mean that advances should be made available to national authorities without strict selection of projects. In Kenya, however, the delegation paid 80 % of the total sum for each annual programme into an imprest account as soon as the overall financing agreements were signed, thus reversing the order of the appraisal and implementation procedures. Some measures, moreover, have never been started, the preparatory study having concluded subsequently that they were not viable. A Court audit visit at the end of 1985 found, furthermore, that 20 % of the projects financed under the fifth EDF's second annual programme had been abandoned. The ease with which the Commission financed projects whose full details had not yet been finalized during the appraisal phase undoubtedly helped to encourage the Kenyan State to increase the number of requests for approval of annual programmes, even before the previous ones had been completed. In 1982, five annual programmes fitted into this category. The national authorities thus had in their hands funds which were immediately available and which could be used for other purposes. When it came to starting up a large number of the measures, there were therefore great difficulties in mobilizing the financial resources granted beforehand by the Community, hence the delays, which could be measured in years and which should have led the delegation to exercise greater vigilance.

Evaluation and monitoring of the micro-projects

67. The evaluation of a project, from its conception, via its implementation, to the conditions on which it is exploited by the recipient community, forms part of the project's life cycle; it continually supplies new information on the successful or unsuccessful aspects of a measure, with a view to rapidly turning to good account the lessons learned from the first experiences with micro-projects.

68. The task of regular monitoring falls in the first instance to the Commission, which is responsible for drawing up, and checking on the application of, the guidelines for implementing the annual programmes by country. But, as regards micro-projects, the major part of the task of monitoring and assessing the projects lies with the delegations. The delegate is required to ensure, throughout the process, that the norms and directives concerning execution are observed, and, more generally, that the project's financial management is sound. He also makes sure that a final assessment of the project has been made and its chances of survival evaluated.

69. In practice, the Commission staff and the delegations, who are involved with the larger-scale projects, devote little time to monitoring and assessing micro-projects. This situation is made all the worse by the fact that the amount of attention they are able to give is reduced when new micro-project programmes are committed, contrary to the Commission's guidelines, before the implementation of previous programmes has been finished. Thus, for over half the micro-project programmes financed under the fifth EDF, no six-monthly execution reports have been written by the delegates. Where such documents do exist, there are major gaps in them concerning in particular the observance of the project selection criteria, the final (actual or estimated) cost of the measures financed and the participation of the State and recipients. The same is true of the implementation reports which, under Article 149 of the Second Lomé Convention, are supposed to be sent to the Commission by ACP States after consultation with the Commission delegates.

70. These shortcomings in the information cannot be totally compensated for by more general assessment documents — mentioned in this report — since they are no substitute for regular monitoring, which alone enables decisions to be made at the right time and allows deviations in the implementation of the execution guidelines to be corrected.

71. Very often, analyses of obstacles encountered in the management of micro-projects — which are included in the reports — are sloppy and inaccurate. Thus, the final report on the third programme of micro-projects under the fifth EDF, in Malawi, cites as one of the main constraints the fact that 'the Communities seemed not to

have been well informed about the project'. Furthermore, the delegations, often for want of reliable evaluation, are not able to test the validity of assumptions made at the appraisal stage, nor can they check up on the effectiveness of the management by the bodies responsible. Major difficulties are experienced when the objectives pursued have not been sufficiently accurately quantified and formulated at the outset for a serious analysis to be carried out subsequently.

Final observations

72. The micro-projects as an instrument are able to meet the essential needs of the poorest people. They do indeed constitute an important complement to other Community development aid instruments.

73. Whilst there has been some improvement in recent years at all levels of the management of the micro-projects, the fact remains that two main points deserve the full attention of the authorities responsible for planning and managing them, with a view to optimum utilization of this instrument to assist the recipient communities.

74. Firstly, rigorous selection of the projects, following an in-depth appraisal, requires great vigilance on the part of the delegate, who, under the Second Lomé Convention, is responsible for approving the project. The extent to which the micro-project meets the eligibility and viability criteria — set out above — determines the recipient community's motivation and subsequent interest in the project, and, consequently, the benefit which the local people can derive from it. The delegate should therefore ascertain in particular that:

- (a) the project meets a real priority need of the local people;
- (b) the local people are involved in the conception and contribute to the implementation of the project;
- (c) the project is adapted to existing social and economic structures.

75. Secondly, as for any investment project, each micro-project can only be successful if the planning, appraisal, implementation and operation are closely monitored, all the more so since the recipients are most usually inexperienced. It would be a good idea in the case of very complex micro-project programmes if the Commission increased its technical assistance with a view to ensuring local coordination of the projects. This would not only facilitate the delegate's apprehension of the socio-cultural

structures of the community and create the premises for more effective monitoring, but would also complete the work of the central body managing the programmes, compensating, where necessary, for its absence or its deficiencies and leading to a marked increase in the success rate of the micro-projects.

OBSERVATIONS ON EMERGENCY AID

76. Article 137 of the Second Lomé Convention (fifth EDF) lays down rules concerning the aid that may be granted to ACP States which are faced with serious economic and social difficulties of an exceptional nature, resulting from natural disasters or extraordinary circumstances with comparable effects.

77. The provisions of Article 137 are very tersely drafted; they are confined to defining the nature of the aid, to fixing the maximum amount of funds to be granted, to evaluating the degree of urgency during both the appraisal phase and the implementation phase, and to paying back into the special allocation all sums remaining unspent from the various projects once the stipulated six-month implementation period has expired. Great flexibility is allowed for in adopting the detailed rules and means for implementing the aid measures, since they are determined on a case-by-case basis in order to obtain the most effective results for each emergency situation.

78. Articles 203 to 205 of the Third Lomé Convention (sixth EDF) lay down a similar set of rules for emergency

aid which may be financed under the sixth EDF. The most important new points are the setting aside, within the planned total amount, of a sum intended for aid to refugees and persons who have been repatriated, and the possibility of financing projects which form part of the national indicative programmes, or work which aims to bring back into operation, and ensure the minimum viability of, damaged structures or equipment.

79. The provisions of both these Conventions have been supplemented by implementing rules; those contained in the delegates' instruction handbook relating to the Third Lomé Convention are very precise in this respect.

80. The financial situation regarding emergency aid as at 30 September 1987 is summarized in *Table 4*. The audit carried out by the Court of Auditors was mainly devoted to examining aid granted under the fifth EDF. This aid amounted to 200 Mio ECU, of which 194 Mio ECU had been committed and 177 Mio ECU paid on 30 September 1987. Thus, 144 projects, not yet all closed (see paragraph 108) and divided up between 52 recipient countries, were financed. As regards financing under the sixth EDF, reference is made to this in paragraph 111.

Appraisal of the aid

81. Aid files are appraised within a few days of the receipt of the request. The Commission sends a telex stating its decision to grant aid and the implementing conditions, which the body making the request accepts by the same means. Implementation of the aid measures concerned must begin within seven days.

Table 4 — Emergency aid financed under Lomé I and Lomé II, as at 30 September 1987

Conventions	Headings	Financing agreements ⁽¹⁾ (1)	Payments	
			(2)	(3 = 2/1)
		1 000 ECU	1 000 ECU	%
Lomé I	Indicative programme total,	3 137 056	2 934 503	94
	of which:			
	Emergency aid			
	— ACP	137 398	137 211	100
Lomé II	— OCT	—	—	—
	— Total	137 398	137 211	100
	Indicative programme total,	4 360 915	2 963 787	68
	of which:			
	Emergency aid			
	— ACP	193 617	176 031	91
	— OCT	914	914	100
	— Total	194 531	176 945	91

(¹) With certain exceptions, these sums were all committed globally, by beneficiary State.

82. Given the urgent nature of this type of aid measure, speedy appraisal must be a priority. Nevertheless, examination of the aid which had been selected for checking revealed some shortcomings which could have been avoided if more precise information had been called for on the assessment of damage, and if it had been possible to confirm this information by estimates from other international bodies or from the delegations. The standard form drawn up by the Commission for use in making all requests for emergency aid has, on the whole, been ignored by the applicants. The latter have in almost all cases confined themselves to sending letters or telegrams containing a negligible amount of information compared with that which is required on the form.

83. In many cases, requirements were over-estimated to an extent which exceeds tolerable limits. To mention but a few examples:

- (a) the aid granted to Zaire to accommodate Ugandan refugees in six camps situated 70 kilometres from the border was calculated on the basis of 75 000 persons, whereas there have never been more than 40 000 of them;
- (b) the cost of transporting food aid to Senegal, which was provided for under emergency aid, was no more than 60 % of the sum set aside and the quantities to be transported did not exceed 70 % of what had been calculated initially;
- (c) within the framework of aid to assist famine victims in Mauritania, the fact that 24 % of the appropriations granted remained unspent illustrates the initial over-estimation of needs.

84. Reports from the delegations during the appraisal stage would be invaluable, insofar as the latter are acquainted with both the emergency situation and the different organizations which are operating in the country in question. Their opinion on these points, apart from providing justification for the request, would act as a guarantee prior to the decision to grant aid. For many projects, the delegations did not involve themselves in the appraisal and, in several cases, they confined themselves in their reports to copying out the figures — which subsequently proved to be inaccurate — given by the body making the request.

85. The Commission should also reflect on the merits of financing, as emergency aid, complex operations which presuppose a large volume of resources. Whilst such operations may well be regarded as emergency aid by virtue of their content and their aims, it is hard to see them as compatible with rapid appraisal. Selection of very specific operations or operations applied to limited geographical areas always enables better evaluation of needs and more effective implementation. For example, under the Dublin Plan, 35 Mio ECU were granted in 1984

to Ethiopia for drought victims, even though the extent of the disaster was still unknown and neither the country nor the international organizations present were capable of managing this amount of funds within such short time-limits. If the emergency aid had been divided up to finance several small operations which were based on more specific proposals, were more easily manageable and had been presented in order of priority, its effectiveness would have been far greater.

86. In general, most of the shortcomings observed by the Court concerned aid in excess of 3 Mio ECU, whereas implementation was found to be better in the case of small projects. One of the reasons for this situation is the need for speedy appraisal, which is ill-suited to large-scale operations with a minimum degree of complexity.

Implementation of the aid

Implementation time-limits

87. Article 137 of the Second Lomé Convention restricts the time-limit for implementation to a maximum of six months, unless otherwise stipulated by the implementing arrangements and provided that it has not been agreed, by common accord, during the implementation period to extend that time-limit owing to extraordinary circumstances. In many cases, this limit has not been respected, both by the Commission and by the managing bodies.

88. For example, implementation of a small part of an aid measure worth 1,5 Mio ECU to assist drought victims in Mali took 18 months, whereas the original forecast had been six months.

89. Despite the dramatic nature of the situation, the aid to assist famine victims in Sudan was implemented excessively slowly, being dragged out over more than two years. The constant delays in supplying and distributing food are in contradiction with the speed which the situation called for.

90. For the 'aid to famine and drought victims in Mauritania' operation, the implementation time-limits were likewise exceeded. For example, the operation to purchase and transport 813 tonnes of seeds, which was supposed to be completed on 21 June 1985, was not in fact completed until January 1986, resulting in a danger that the seed deliveries would be out of step with the sowing

time, that land might remain uncultivated during this time, etc.

91. During the drought which struck Ethiopia in 1984, most of the aid operations did not begin in the field until over three months after the date of the decisions (December 1984) because of the tricky problem of assessing the measures that were needed. Several of them were not completed until 1986, namely:

- (a) the financing of the operating expenses for the fleet of United Nations lorries (1,5 Mio ECU), which continued until August 1986;
- (b) the costs of land transport (0,8 Mio ECU), which were financed from May to October 1986.

92. The purchase and distribution of biscuits and soya oil were financed (0,85 Mio ECU) under another emergency aid package granted to Ethiopia in February 1986 (6 Mio ECU). Apart from the many safety problems which hampered part of the distribution, the late delivery of some supplies, which arrived at the end of 1986, i.e. after the harvests, meant that they were not distributed until after the period of urgent need. Thus, the greater part of 400 tonnes of biscuits delivered was not distributed until the months of March to May 1987.

Extent to which objectives are achieved

93. The progress of the various measures provided for by the agreements relating to the granting of aid has not always been adequate. In too many cases, the objectives laid down have been only partially achieved.

94. A significant example of this is the project, entrusted to the UNHCR, to integrate Ugandan refugees into Zaire, in which the appraisal was lax and the implementation inadequately coordinated. A report dated 5 June 1982 by the adviser to the Kinshasa delegation highlights the following facts: as regards the cultivation of the land, only 8 % had been cultivated by June 1982 instead of the 20 % planned for February 1982; the prefabricated buildings chosen, apart from costing more, did not bring the expected results; the installations in the schools were not operational; the clinics and health centres, according to the 'Médecins sans frontières' team responsible for the health aspect, were chronically inadequate; the food stores were neither in conformity with nor suitable for their intended purpose and there was a blatant lack of coordination between the various parties involved. (To mention but one example, the landscape-design expert arrived on site when the laying-out and building works were virtually finished.)

95. The lack of logistical organization of the transport had serious consequences with regard to the objectives aimed at:

- (a) in Senegal, the distribution of food began with places accessible by asphalt road, and so the places served by dirt tracks were not able to receive the food intended for them because of an early rainy season, which had made the access roads impassable;
- (b) in Sudan, the least accessible parts of the country received the aid after a considerable delay, and the fact that they received it at all was purely due to an airfield being brought into operation as a matter of urgency in order to allow access to military aircraft from certain Member States.

Coordination between the various parties involved

96. As far as the fifth EDF is concerned, there is a lack of precise rules governing the coordination of the various operators. In several cases, operations have been divided up at local level between various organizations which have carried out their tasks separately, with varying degrees of success; in such cases, it is very difficult to make a general assessment of the overall effectiveness of the aid granted.

97. The delegation, which, as the Commission's on-the-spot representative, seems to be the body most suited to carrying out this coordinating function, has played no part in many aid measures financed by the EDF and carried out by major international bodies (such as the Red Cross and the Office of the United Nations High Commissioner for Refugees).

98. As regards large-scale aid measures, there has often been found to be a lack of coordination between the various suppliers of funds and the local authorities themselves; closer collaboration would undoubtedly have made for improved effectiveness in the management of the aid (Senegal, Sudan, etc.). The poor coordination of aid granted to Ethiopia during the great drought in 1984 is particularly worthy of note. Although considerable effort was made on the spot to coordinate the aid granted by the various donors, several organizations found that the operations they were carrying out were being duplicated by others in the same area. In respect of the food distribution operations in particular, many problems cropped up between the government organization (responsible for the distribution of EDF food aid) and the NGOs (responsible for distributing food aid from other donors): the fact that in one and the same region the NGOs were distributing more generous rations to the local people than the government organization gave rise

to considerable friction between these people and the government organization.

Control and monitoring of the aid

Control and monitoring of the management

99. The control and monitoring of the management of the aid granted under the Second Lomé Convention have been carried out either by the delegations (in the majority of cases), or by the emergency aid department of the Directorate-General for Development (DG VIII), and have been based on the periodic reports and the final financial and descriptive reports relating to the implementation of the aid.

100. In view of the remoteness of the area of intervention and the fact that circumstances require rapid implementation, it is still up to the delegation to ensure effective control and monitoring of aid measures in circumstances where, very often, success or failure depends on quick decision-making. On several occasions, it has, unfortunately, been noted that the delegation has not played any role.

101. The periodic reports, which, in every case, must be submitted as part of the obligations which the managers have undertaken to fulfil, have not always been produced within the time-limits and in the form required. For example:

- (a) as regards the payment of partial amounts, the conditions stipulated, which imply the prior submission of an implementation report, have — in the case of several files — not been complied with;
- (b) the content of these reports does not, on the whole, enable a reasonable assessment to be made of the implementation of the aid and of the extent to which the objectives have been attained. The Commission's reaction to the inadequacy or lack of these reports has often been slow and belated, as have been the complaints it has made to the various people responsible.

102. The slowness and delays in receiving final reports have been even more serious. In many cases, they had still not been received several months after the time-limit laid down for the implementation of the aid had expired. Furthermore, in the case of Community aid worth 10 650 000 ECU and intended to combat famine in Mali, which was implemented by various international organizations coordinated by the delegation, it was not possible to supply any final comprehensive report on the entire aid measure, since this obligation was not specified in the implementing rules.

103. The weakness of the control and monitoring of the management has made it possible for aid measures to continue which, at the outset, bearing in mind the rapidity of the appraisal, seemed to meet the criteria for emergency aid, but which, as time went by, were seen to have been implemented by means of an unsuitable financial instrument. This situation has occurred in three cases:

- (a) the series of aid measures to help drought victims in Senegal includes a complex operation for the production of cowpeas which involves buying 450 tonnes of seed in California, the out-of-season propagation of local varieties and the sowing of seeds supplied by the EEC, the FAO and the Usaid at a total cost of 265 Mio CFA F. The supplementary measures concerning technical assistance and making plant-health products available, which cost a total of 450 Mio CFA F and were financed by the sale of food aid products, have had the effect of turning this operation into a full-blown agricultural project; furthermore, the objective of the operation (namely, progressing from a secondary crop for own consumption to a main cash crop) clearly has certain characteristics, notably the duration and final purpose, which exclude such a project from receiving financing under Article 137 of the Second Lomé Convention;
- (b) the operation to supply water to the town of Atar, to assist drought victims in Mauritania, also shows some implementation features which do not seem to be applicable to emergency aid operations; at the very least, it seems that this measure might not have been a priority one as compared with other aid measures in the country. In connection with this water-supply project, the government had already submitted two requests for finance during the two previous years under the indicative programme; furthermore, when this emergency aid was granted, another subsidy was given for the purpose of developing two wells, under the heading of financing for micro-projects. The operation as a whole could therefore have been included in the programmable aid. Moreover, the Commission gave its agreement to fixing a price of 200 ouguiyas per m³, provided that this amount was entered in the accounts separately and that it was intended for immediate emergency measures. To this day, these funds have not been used, which is therefore an indirect extension of the implementation period for the aid, so that this aid measure merits the description 'emergency aid' even less;
- (c) a sum of 1 Mio ECU was granted to finance part of a Unicef water-supply project in Ethiopia. This project was carried out over a number of years, so that it should be described as a 'medium-term water-supply programme in a rural area', rather than 'emergency aid'.

104. Furthermore, the examples given below of subsidies being allocated to finance operations and measures which were not provided for at the outset, should encourage the monitoring to be improved:

- (a) 76 234 ECU from the aid programme to assist Ethiopian refugees in Somalia was allocated to transport costs, which were not originally meant to be covered; this was done without prior permission from the Commission, and the money was deducted from the sum intended to be spent on supplying essential goods;
- (b) in the same country, an amount of 450 000 ECU granted in 1981 to assist refugees and intended to be spent on water supplies, was used to finance the development of two agricultural plots of 100 ha.

105. On 26 November 1987, the Court of Auditors sent eight delegations a request, via DG VIII, for additional documents and information. Since no replies were received in due time, it was not possible to take the information requested into account.

Control of payments

106. During the audit visits which the Court made to ACP countries, it found that in the delegations one person alone was responsible for the implementation, monitoring and payment of aid. The internal accounts are generally well kept, but, nevertheless, the internal control of payments at delegation level and in the departments of DG VIII has proved unsatisfactory:

- (a) there is no reconciliation between the ledger cards kept by the departments responsible for emergency aid in DG VIII and the delegations' accounting records;
- (b) because of delays in recording operations on these ledger cards, the latter are not up to date and contain incomplete information;
- (c) control of payment orders sent by the delegations is carried out by the emergency-aid departments in DG VIII, and solely from a formal point of view (calculations and balance of amounts granted as aid).

107. As a result of this lack of regular reconciliation and the weakness of the controls, an examination of DG VIII's accounts and of figures from the internal accounts or financial reports issued by the delegations (or other bodies) reveals many discrepancies, notably:

- (a) as regards the delegation in Ethiopia, which managed various projects simultaneously, the accounts showed charging errors for many entries, some of which, corresponding to EDF projects, have been confused with others relating to budgetary aid under the Dublin Plan, without DG VIII having noticed these mistakes;
- (b) similarly, in Mauritania, an operation to purchase and transport seeds was recorded at the delegation as involving 500 000 ECU, whereas it was entered in the Commission accounts in Brussels for only 455 632,53 ECU.

Closure of project accounts and utilization of remaining appropriations

108. On 30 September 1987, accounts relating to 116 of the 144 projects corresponding to the fifth EDF (i.e. about 80 % of them, representing 96 % of the total expenditure) had not yet been closed. For all these projects, the six-month time-limit stipulated under Article 137(8) of the Second Lomé Convention had been exceeded. These various projects were committed in the following years: 23 in 1981, 17 in 1982, 16 in 1983, 36 in 1984, 11 in 1985 and 13 in 1986. The reasons why the accounts are still open have mainly to do with the long delays before entries are made in the accounts and to the lack of reconciliations (40 of them go back more than five years).

109. In order to close a project, the final balance has to be established and fixed, after checking all the accounting entries. The Commission should make every effort to give this task all the importance it deserves, because it has proved to be essential when evidence of the sound management of the aid measures undertaken has to be shown.

110. Paragraph 8(c) of Article 137 has thus remained a dead letter, since, the accounts not having been closed, it has not been possible to establish in time the amount of unexpended appropriations which should have been reallocated to the special appropriation.

Third Lomé Convention

111. The instructions to delegates for the implementation of the sixth EDF contain, for the first time, a long detailed chapter devoted to emergency aid. But, since on 30 September 1987 the level of implementation of the sixth EDF was only 12 % for amounts committed and 6 % for payments, it is not yet possible to make a meaningful assessment of how it has been managed. Nevertheless, a first analysis of the files for emergency aid already granted under the sixth EDF justifies some doubts as to whether the management has been improved. Although five aid measures were granted in the first quarter of 1986 and 18 in the second quarter of that year, none of these 23 operations has yet been closed.

Consequently, unspent funds may well not be reallocated to the special appropriation.

Final observation

112. Whatever the merits of emergency aid, it has been found that the management of these aid measures has revealed weaknesses of which the Commission was aware and which it has sought to remedy, under the sixth EDF, by laying the foundations for future improvements through a precise and suitable set of rules. Even so, these instructions have still to be applied.

(1) On 18.3.1988, 16 programmes corresponding to a total amount of 30 Mio ECU had been approved in 15 ACP States.

(2) The Third Lomé Convention raised this ceiling to 250 000 ECU.

(3) This contribution became optional under the Third Lomé Convention.

(4) The Third Lomé Convention extended the maximum EDF contribution to the financing of a micro-project to two thirds of its total cost.

(5) Report on the 'Comparative assessments of projects jointly financed with NGOs and micro-projects'.

*ANNEX I***Allocation of responsibilities among the Members of the Court of Auditors ⁽¹⁾ at the time this report was adopted**

Secretariat, legal service, staff and administration and external relations

Marcel MART,
President

Audit Group I ⁽¹⁾

Own resources:
customs duties and agricultural revenue, VAT resources, GNP resources,
balancing of the budget and sundry revenue

Richie RYAN

EAGGF — 1:
European Agricultural Guidance and Guarantee Fund, Guarantee Section:
management and budgetary control procedures and general matters

John CAREY

EAGGF — 2:
European Agricultural Guidance and Guarantee Fund, Guarantee Section:
common market organizations

Keld BRIXTOFTE

EAGGF — 3:
European Agricultural Guidance and Guarantee Fund:
Guidance Section (operations other than regional measures)
Guarantee Section (sugar)

Fernand HEBETTE

Fisheries

Agricultural expenditure

⁽¹⁾ Extract from the Court's Rules of Procedure and Court Decision No 85-17 of 17 December 1985 creating three Audit Groups:
— 'The Court shall assign to its Members particular sectors of activity within which they shall be specially responsible for the preparation and implementation of the decisions of the Court.'
— 'Before being submitted to the Court, draft comments for inclusion in the annual report shall be examined by the competent Audit Groups, at the instance of the Member responsible for the sector.'
— 'The powers vested in these Groups shall be exclusively preparatory as regards draft reports and opinions, proposed work programmes and all other auditing topics to be submitted for the Court's approval.'
— The Court shall approve those comments which it considers suitable for inclusion in the annual report and shall adopt the final text of the annual report.'

Audit Group II

European Development Funds	Aldo ANGIOI
Cooperation with developing countries and other non-member States	Pierre LELONG
European Regional Development Fund	André J. MIDDELHOEK
European Agricultural Guidance and Guarantee Fund, Guidance Section (regional measures)	
European Social Fund	Josep SUBIRATS

Audit Group III

General auditing matters, coordination of financial and computerized auditing, publishing and follow-up of reports and opinions, work programmes and working methods and professional training	Marcel MART
Loans and borrowings	Lothar HAASE
European Coal and Steel Community	
General accounts	
Accounting principles	
Staff and operating expenditure of the institutions	Stergios VALLAS
Office for Official Publications	
Press and information offices	
European Schools	
Research, technology and new policies	Carlos MORENO
Subsidies	

*ANNEX II***Reports and opinions adopted by the Court of Auditors during the last five years**

The Court of Auditors is required by the terms of the Treaties to produce an annual report. It is also required, by the Treaties and other regulations, to produce annual reports on certain Community bodies and activities. The Treaties further give the

Court the power to submit observations on specific questions and to deliver opinions at the request of one of the institutions. The reports and opinions adopted by the Court during the last five years are listed below.

Title	Date of adoption	Publication ⁽¹⁾
Sixth annual report, concerning the financial year 1982	24 November 1983	OJ C 357, 31. 12. 1983
Report (Annex to the 1982 ECSC annual report) on the accounting and financial management of the ECSC	7 December 1983	Not published in OJ
Special report 6/83 on the European Social Fund Computer System	15 December 1983	Not published in OJ
Opinion 2/83 on the proposal for a Council Regulation on interest subsidies for certain loans granted under the European Monetary System	12 January 1984	OJ C 55, 28. 2. 1984
Report on the accounts of the European Schools for 1982	23 February 1984	Not published
Opinion 4/83 on the second amendment to the proposal for a Council Regulation amending Regulation (EEC, Euratom, ECSC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	14 March 1984	OJ C 163, 23. 6. 1984
Special report 1/84 on the coordination of Community aid to third countries	14 March 1984	OJ C 224, 25. 8. 1984
Opinion 3/83 on the proposal for a Council Decision empowering the Commission to help finance innovation within the Community	5 April 1984	OJ C 163, 23. 6. 1984

⁽¹⁾ Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication (1)
Special report 2/84 on the management of Community development aid funds by the European Investment Bank	10 May 1984	Not published in OJ
Opinion 1/84 on the proposal for a Council Regulation introducing measures to cover budgetary requirements in 1984 given the exhaustion of own resources	7 June 1984	OJ C 228, 30. 8. 1984
Report on the 1983 accounts of the Euratom Supply Agency	19 June 1984	Not published in OJ
Report on the 1983 JET financial statements	19 June 1984	Not published in OJ
Report on the financial statements of the European Coal and Steel Community for the financial year 1983	26 June 1984	OJ C 350, 31. 12. 1984
Special report 3/84 on the operation of the common organization of the market in sheepmeat	19 July 1984	OJ C 234, 4. 9. 1984
Special report 4/84 on the implementation of Directive 77/435/EEC of 27 June 1977 on scrutiny by the Member States of transactions forming part of the system of financing by the EAGGF (Guarantee Section)	11 October 1984	OJ C 336, 17. 12. 1984
Report on the 1983 accounts of the European Centre for the Development of Vocational Training (Berlin)	24 October 1984	Not published in OJ
Report on the 1983 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	24 October 1984	Not published in OJ
Seventh annual report concerning the financial year 1983	22 November 1984	OJ C 348, 31. 12. 1984
Report (Annex to the 1983 ECSC annual report) on the accounting and financial management of the ECSC	13 December 1984	Not published in OJ
Special report 5/84 on the system of aid for liquid skimmed milk used as animal feed	13 December 1984	OJ C 91, 12. 4. 1985
Special report 1/85 on the common organization of the market in olive oil	25 April 1985	OJ C 134, 3. 6. 1985
Opinion 1/85 on a proposal for a Council Regulation (EEC) on the application of the agreement in the form of an exchange of letters between the EEC and the Portuguese Republic concerning the implementation of specific financial aid for improving agricultural and fisheries structures in Portugal	2 May 1985	OJ C 138, 6. 6. 1985
Opinion 2/85 on a proposal for a Council Regulation (EEC, Euratom, ECSC) extending the terms of validity of Council Regulation (EEC, Euratom, ECSC) No 2892/77 implementing in respect of own resources accruing from value-added tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	26 June 1985	OJ C 261, 12. 10. 1985

(1) Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication ⁽¹⁾
Report on the financial statements of the European Coal and Steel Community for the financial year 1984	26 June 1985	OJ C 360, 31. 12. 1985
Special report 2/85 on the system for the payment of refunds on agricultural exports (Audit of the export of agricultural products)	26 June 1985	OJ C 215, 26. 8. 1985 and OJ C 238, 19. 9. 1985
Special report 3/85 on certain aspects of technical cooperation financed by Community development aid	12 July 1985	Not published in OJ
Report on the accounts of the European Schools for 1983	17 July 1985	Not published in OJ
Report on the accounts of the Euratom Supply Agency for 1984	17 July 1985	Not published in OJ
Report on the 1984 JET financial statements	17 July 1985	Not published in OJ
Opinion on the treatment of irregularities in the context of the discharge procedure	10 October 1985	Not published in OJ
Opinion on the cash deficit at the Members' Cash Office	10 October 1985	Not published in OJ
Report on the 1984 accounts of the European Centre for the Development of Vocational Training (Berlin)	17 October 1985	Not published in OJ
Report on the 1984 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	17 October 1985	Not published in OJ
Reflections on perspectives for the common agricultural policy (Commission Green Paper)	30 October 1985	Not published in OJ
Report (Annex to the 1984 ECSC annual report) on the accounting and financial management of the ECSC	19 November 1985	Not published in OJ
Eighth annual report concerning the financial year 1984	19 November 1985	OJ C 326, 16. 12. 1985
Special report 4/85 on the common organization of the market in fishery products	28 November 1985	OJ C 339, 31. 12. 1985
Special report 5/85 on the Community contribution towards schemes concerning developing countries carried out by non-governmental organizations	12 December 1985	Not published in OJ
Opinion 3/85 on the draft amendments to certain articles of the draft Commission Regulation laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977 (not translated into English)	12 December 1985	Not published in OJ
Opinion 4/85 on the proposal for a Council Regulation (EEC) amending Regulation (EEC) No 2681/74 on Community financing of expenditure incurred in respect of the supply of agricultural products as food aid	12 December 1985	OJ C 357, 31. 12. 1985
Opinion 5/85 on the draft Financial Regulation applicable to the Sixth European Development Fund	12 December 1985	OJ C 361, 31. 12. 1985

⁽¹⁾ Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication ⁽¹⁾
Special report 1/86 on the contract measures for the expansion of markets for milk and milk products financed by proceeds of the co-responsibility levy	20 February 1986	OJ C 127, 26. 5. 1986
Opinion 1/86 on the proposal for a Council Regulation amending Regulation (EEC) No 1883/78 on the general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section	6 March 1986	OJ C 80, 9. 4. 1986
Report on the 1985 accounts of the Euratom Supply Agency	29 May 1986	Not published in OJ
Report on the financial statements of the ECSC at 31 December 1985	17 June 1986	OJ C 208, 19. 8. 1986
Special report 2/86 on the ERDF's specific Community regional development measures (non-quota measures)	10 July 1986	OJ C 262, 20. 10. 1986
Special report 3/86 on the subsidy system for oilseeds	10 July 1986	Not published in OJ
Report on the accounts of the European Schools for the financial year 1984	25 September 1986	Not published in OJ
Report on the 1985 accounts of the European Centre for the Development of Vocational Training (Berlin)	23 October 1986	Not published in OJ
Report on the 1985 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	11 November 1986	Not published in OJ
Opinion 2/86 on a draft Financial Regulation on the application of the Financial Protocols concluded with Algeria, Morocco, Tunisia, Egypt, Lebanon, Jordan, Syria, Malta and Cyprus	11 November 1986	OJ C 302, 27. 11. 1986
Report on the 1985 JET financial statements	19 November 1986	Not published in OJ
Report (Annex to the 1985 ECSC annual report) on the accounting and financial management of the ECSC	19 November 1986	Not published in OJ
Ninth annual report concerning the financial year 1985	19 November 1986	OJ C 321, 15. 12. 1986
Special report No 4/86 on financial and technical cooperation	4 December 1986	OJ C 75, 23. 3. 1987
Opinion No 1/87 on the Council's proposal for a Regulation amending Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section	18 February 1987	OJ C 59, 7. 3. 1987
Opinion No 2/87 on the Commission proposal for a Council Regulation (EEC) on the monitoring of the payment of the amounts granted on export of agricultural products	14 May 1987	OJ C 147, 5. 6. 1987

⁽¹⁾ Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication (1)
Special report No 1/87 on the quality of food aid. The extent to which food aid products comply with the applicable rules as regards quality, quantity, packaging, time and place	27 May 1987	OJ C 219, 17. 8. 1987
Opinion No 3/87 on a proposal for a Council Regulation amending Regulation (EEC) No 729/70 on the financing of the common agricultural policy with regard to the system of advances in the Guarantee Section of the European Agricultural Guidance and Guarantee Fund	10 June 1987	OJ C 175, 3. 7. 1987
Report on the financial statements of the European Coal and Steel Community at 31 December 1986	25 June 1987	OJ C 228, 26. 8. 1987
Report on the 1986 accounts of the Euratom Supply Agency	25 June 1987	Not published in OJ
Special report No 2/87 on the quota/additional levy system in the milk sector	15 July 1987	OJ C 266, 5. 10. 1987
Special report No 3/87 on the common organization of the market in raw tobacco	15 July 1987	OJ C 297, 6. 11. 1987
Special report No 4/87 on Community wine distillation measures	17 September 1987	OJ C 297, 6. 11. 1987
Special report No 5/87 on Community aid for the acceleration of agricultural development in Greece	7 October 1987	Not published in OJ
Special report No 6/87 on food aid supplied to India between 1978 and 1985 (Flood II operation)	29 October 1987	OJ C 31, 4. 2. 1988
Opinion No 4/87 on a proposal for a Council Regulation (Euratom, ECSC, EEC) derogating temporarily from Regulation (EEC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources	29 October 1987	OJ C 337, 16. 12. 1987
Opinion No 5/87 on a proposal for a Council Regulation (Euratom, ECSC, EEC) amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	29 October 1987	OJ C 337, 16. 12. 1987
Report on the 1986 accounts of the European Centre for the Development of Vocational Training (Berlin)	4/5 November 1987	Not published in OJ
Report on the 1986 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	4/5 November 1987	Not published in OJ
Report on the accounts of the European Schools for the financial years 1985 and 1986	4/5 November 1987	Not published in OJ
Report (Annex to the 1986 ECSC annual report) on the accounting and financial management of the ECSC	10/11 November 1987	Not published in OJ

(1) Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication ⁽¹⁾
Tenth annual report concerning the financial year 1986	10/11 November 1987	OJ C 336, 15. 12. 1987
Opinion 6/87 on a proposal for a Council (Euratom, ECSC, EEC) Regulation provisionally amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	19 November 1987	OJ C 337, 16. 12. 1987
Opinion 7/87 on a second amendment of the proposal for a Council (Euratom, ECSC, EEC) Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	26 November 1987	OJ C 339, 17. 12. 1987
Opinion 8/87 on a third amendment of the proposal for a Council (Euratom, ECSC, EEC) Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	27 November 1987	OJ C 339, 17. 12. 1987
Special report 7/87 on the management of counterpart funds in respect of food aid	27 November 1987	OJ C 31, 4. 2. 1988
Report on the 1986 JET financial statements	10 March 1988	Not published in OJ
Special report 1/88 on national and Community systems and procedures relating to the management of the European Social Fund	10 March 1988	OJ C 126, 16. 5. 1988
Special report 2/88 on the integrated approach to Community financing of structural measures	18 May 1988	OJ C 188, 18. 7. 1988
Special report 3/88 on the common organization of the market in fishery products in Spain and Portugal	18 May 1988	OJ C 188, 18. 7. 1988
Special report 4/88 on regional cooperation financed under the Lomé Conventions	18 May 1988	OJ C 188, 18. 7. 1988
Opinion 1/88 on a proposal for a Council Regulation (ECSC, EEC, Euratom) amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	19 May 1988	OJ C 166, 25. 6. 1988
Opinion 2/88 on a proposal for a Council Regulation amending Council Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section	19 May 1988	OJ C 166, 25. 6. 1988
Opinion 3/88 on a proposal for a Council Regulation amending Regulation (EEC) No 729/70 on the financing of the common agricultural policy, as last amended by Regulation (EEC) No 3183/87 of 19 October 1987 introducing special rules for the financing of the common agricultural policy	1 June 1988	OJ C 166, 25. 6. 1988
Opinion 4/88 on a proposal to amend the Financial Regulation applicable to the budget of the Joint European Torus (JET), Joint Undertaking	1 June 1988	Not published in OJ

⁽¹⁾ Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

Title	Date of adoption	Publication ⁽¹⁾
Report on the 1987 accounts of the Euratom Supply Agency	15 June 1988	Not published in OJ
Replies delivered by the Court of Auditors, pursuant to Articles 206(a) § 4 and 209 of the EEC Treaty, to the Council's requests for an opinion on a proposal for a decision concerning budgetary discipline	16 June 1988 and 22 June 1988	Not published in OJ
Opinion 5/88 on a proposal for a Council Regulation (ECSC, EEC, Euratom) on the definitive uniform arrangements for the collection of own resources accruing from value-added tax (VAT)	16 June 1988	OJ C 191, 20. 7. 1988
Report on the financial statements of the European Coal and Steel Community at 31 December 1987	22 June 1988	OJ C 217, 19. 8. 1988
Opinion 6/88 on a proposal for the amendment of Article 12 of Regulation (EEC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	14 July 1988	OJ C 212, 12. 8. 1988
Special report 5/88 on management and control of public storage	8 September 1988	OJ C 274, 24. 10. 1988
Opinion 7/88 on a draft Financial Regulation of the European Schools	22 September 1988	Not published in OJ
Report on the 1987 accounts of the European Centre for the Development of Vocational Training (Berlin)	9 November 1988	Not published in OJ
Report on the 1987 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	9 November 1988	Not published in OJ
Report (Annex to the 1987 ECSC annual report) on the accounting and financial management of the ECSC	9 November 1988	Not published in OJ
Opinion 8/88 on a proposal for a Council Regulation (ECSC, EEC, Euratom) implementing the Decision of 24 June 1988 on the Communities' system of own resources	17 November 1988	OJ C 313 8. 12. 1988
Report on the 1987 JET financial statements	17 November 1988	Not published in OJ
Eleventh annual report concerning the financial year 1987	17 November 1988	In this edition

⁽¹⁾ Requests concerning the availability of documents not published in the OJ may be sent to the Court's Documentation Department.

ANNEX III

**Financial information relating
to the general budget of the European Communities
and
to the European Development Funds
(1987)**

Preliminary remarks

1. Source of financial data

The financial data in this Annex have been drawn from the revenue and expenditure accounts and the balance sheets of assets and liabilities of the European Communities ⁽¹⁾ and of the European Development Funds and from other financial records provided by the Commission.

2. Monetary unit

All the financial data are presented in millions of ECU (Mio ECU), rounded to one decimal place.

3. Change in nomenclature of the general budget

Changes are sometimes made to the budgetary nomenclature. The Court uses the nomenclature of the current financial year for the presentation of the historical data and each time the nomenclature is changed it adapts the data of the previous financial years in accordance with the current nomenclature.

Thus the data given in § 14 to §19 are comparable year by year.

⁽¹⁾ For the financial year 1987: revenue and expenditure account and balance sheet of assets and liabilities relating to operations under the 1987 budget (Doc. COM(88) 212 – 216).

4. Abbreviations and symbols

EC	European Community(ies)
ECSC	European Coal and Steel Community
EEC	European Economic Community
EAEC or Euratom	European Atomic Energy Community
EAGGF	European Agricultural Guidance and Guarantee Fund
GNP	Gross national product
VAT	Value-added tax
BFR	Belgian franc
DKR	Danish crown
DM	German mark
DRA	Greek drachma
ESC	Portuguese escudo
FF	French franc
HFL	Dutch guilder
IRL	Irish pound
LFR	Luxembourg franc
LIT	Italian lira
PTA	Spanish peseta
UKL	Pound sterling
u.a.	Unit of account (until 1977)
EUA	European unit of account (from 1978 to 1980)
ECU	European currency unit (as from 1 January 1981)
Mio ECU	Millions of European currency units
DA	Differentiated appropriations
NDA	Non-differentiated appropriations
CA	Commitment appropriations
PA	Payment appropriations
AFC	Appropriations for commitment
AFP	Appropriations for payment
B	Belgium
DK	Denmark
D	Federal Republic of Germany
GR	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
P	Portugal
UK	United Kingdom
EUR 10/12	Total of the 10 or 12 Member States of the European Communities
EDF	European Development Fund
ACP	African, Caribbean and Pacific States
OCT	Overseas Countries and Territories
FOD	French Overseas Departments
Stabex	Stabilization of export earnings
Sysmin	System of stabilization of export earnings from mining products
FR	Financial Regulation of 21 December 1977
OJ	Official Journal of the European Communities
S	Budgetary section
T	Budgetary title
Ch	Budgetary chapter
—	Nil
0,0	Data between zero and 0,05
%	Percentage
§	Sections referring within this annex to texts, diagrams and tables

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Part I: General budget of the European Communities

§ 1. Background information on the general budget

1.1. Origin of the general budget

The general budget was created by the Merger Treaty ⁽¹⁾ (Article 20). It replaced, on 1 January 1968, the three separate EC budgets which existed before then: the ECSC administrative budget, the EEC budget and the Euratom operating budget. The Euratom research and investment budget was incorporated in the general budget as from 1971 by the Treaty of Luxembourg ⁽²⁾ (Article 10).

1.2. Legal basis

The general budget is governed by the financial provisions of the Treaties of Paris ⁽³⁾ (Article 78 ECSC) and Rome ⁽⁴⁾ ⁽⁵⁾ (Articles 199 to 209 EEC and Articles 171 to 183 Euratom) and by amendments resulting from the Merger Treaty ⁽¹⁾, the Council Decision on own resources ⁽⁶⁾, the Treaty of Luxembourg ⁽²⁾, the Treaty of Accession ⁽⁷⁾ and the Treaty of Brussels ⁽⁸⁾. The Financial Regulation ⁽⁹⁾ governs the procedure for establishing and implementing the budget and for presenting and auditing the accounts. The Financial Regulation is supplemented by further specific enactments governing the details of budgetary implementation.

1.3. Main budgetary principles prescribed by the Treaties and the Financial Regulation

The budget is authorized for one financial year (annuality). The budget presented must be in balance. Budgetary revenue is to be used without distinction to finance all expenditure entered in the budget (non-assignment). All items of Community revenue and expenditure are to be included in the budget (unity). All items of revenue and expenditure are to be entered in full in the budget and in the accounts without any adjustment against each other (universality). There are some exceptions to these general principles.

1.4. Content and structure of the general budget

The general budget comprises the estimates of administrative expenditure of the ECSC and corresponding revenue, of revenue and expenditure of the EEC and of revenue and expenditure of Euratom.

The budget consists of five separate sections subdivided into statements of (estimated) revenue and expenditure: **(I) Parliament; (II) Council** (annexed: **Economic and Social Committee**); **(III) Commission; (IV) Court of Justice; (V) Court of Auditors.**

Within each section, revenue and expenditure are classified under budget headings (titles, chapters, articles and items) according to their type or the use to which they are to be applied.

1.5. Monetary unit of the general budget

Until 1977 the budget was established and implemented in **units of account (u.a.)**: 1 u.a. = 0,88867088 g gold (= 1 US dollar between 1934 and 1972).

From 1978 to 1980 the budget was established and implemented in **European units of account (EUA)**: 1 EUA corresponds to the total of the following amounts of the currencies of the EC Member States: 0,828 DM + 0,0885 UKL + 1,15 FF + 109 LIT + 0,286 HFL + 3,66 BFR + 0,14 LFR + 0,217 DKR + 0,00759 IRL.

As from 1981 the budget has been established and implemented in **European currency units (ECU)**. Like the EUA, the ECU is a unit based on a basket of national currencies. For 1981, 1982 and 1983 the value and composition of the ECU basket is the same as that of the EUA (the Greek currency, the drachma, was not included in the ECU basket). For 1984-1987 1 ECU = 0,719 DM + 0,0878 UKL + 1,31 FF + 140,0 LIT + 0,256 HFL + 3,71 BFR + 0,14 LFR + 0,219 DKR + 0,00871 IRL + 1,15 DRA.

The rates of conversion at 31 December 1987 between the ECU and the national currencies were as follows: 1 ECU = 43,1539 BFR = 7,94457 DKR = 2,06034 DM = 164,483 DRA = 169,467 ESC = 6,98335 FF = 2,31762 HFL = 0,777888 IRL = 43,1539 LFR = 1521,66 LIT = 140,566 PTA = 0,696793 UKL.

1.6. Financing of the general budget (budgetary revenue)

The general budget is mainly financed by the **own resources of the Communities** ⁽⁶⁾: customs duties, agricultural levies, sugar and isoglucose levies and VAT up to a maximum of 1,4 % of a uniform EC assessment basis ⁽¹⁰⁾⁽¹¹⁾; there are also other smaller sources of revenue.

As from January 1971, pursuant to the Council Decision of 21 April 1970 ⁽⁶⁾, the system of own resources progressively replaced the former system of fixed percentage financial contributions by the Member States. Until it became possible to apply the uniform VAT basis, financial contributions continued to be paid by the Member States. As from 1975 these financial contributions were calculated on the basis of the gross national product (GNP) shares of Member States. In 1979 own resources included VAT own resources for the first time. This was paid by Member States other than the Federal Republic of Germany, Ireland and Luxembourg, which continued to pay GNP-based financial contributions. In 1980 the VAT system was applied by all Member States. From 1981 to 1985 all the Member States paid VAT own resources with the exception of Greece which paid a financial contribution based on the GNP. In 1986 and 1987 all the Member States paid VAT own resources with the exception of Portugal, which paid a financial contribution based on its GNP.

⁽¹⁾ Merger Treaty (8 April 1965): Treaty establishing a Single Council and Single Commission of the European Communities.

⁽²⁾ Treaty of Luxembourg (22 April 1970): Treaty amending certain budgetary provisions of the Treaties establishing the European Communities and of the Merger Treaty.

⁽³⁾ Treaty of Paris (18 April 1951): Treaty establishing the European Coal and Steel Community (ECSC).

⁽⁴⁾ Treaty of Rome (25 March 1957): Treaty establishing the European Economic Community (EEC).

⁽⁵⁾ Treaty of Rome (25 March 1957): Treaty establishing the European Atomic Energy Community (Euratom).

⁽⁶⁾ Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (OJ L 94, 28. 4. 1970).

⁽⁷⁾ Treaty of Accession (22 January 1972): Act concerning the Conditions of Accession and the Adjustments to the Treaties.

⁽⁸⁾ Treaty of Brussels (22 July 1975): Treaty amending certain financial provisions of the Treaties establishing the European Communities and of the Merger Treaty.

⁽⁹⁾ Financial Regulation of 21 December 1977 (OJ L 356, 31. 12. 1977).

⁽¹⁰⁾ See Sixth Council Directive of 17 May 1977, common system of VAT: uniform assessment basis (OJ L 145, 13. 6. 1977).

⁽¹¹⁾ Maximum VAT rate of uniform assessment basis: 1 % for 1979-1985, 1,4 % from 1986.

1.7. Types of budget appropriations

To cover estimated expenditure, the following types of budget appropriations are distinguished in the general budget:

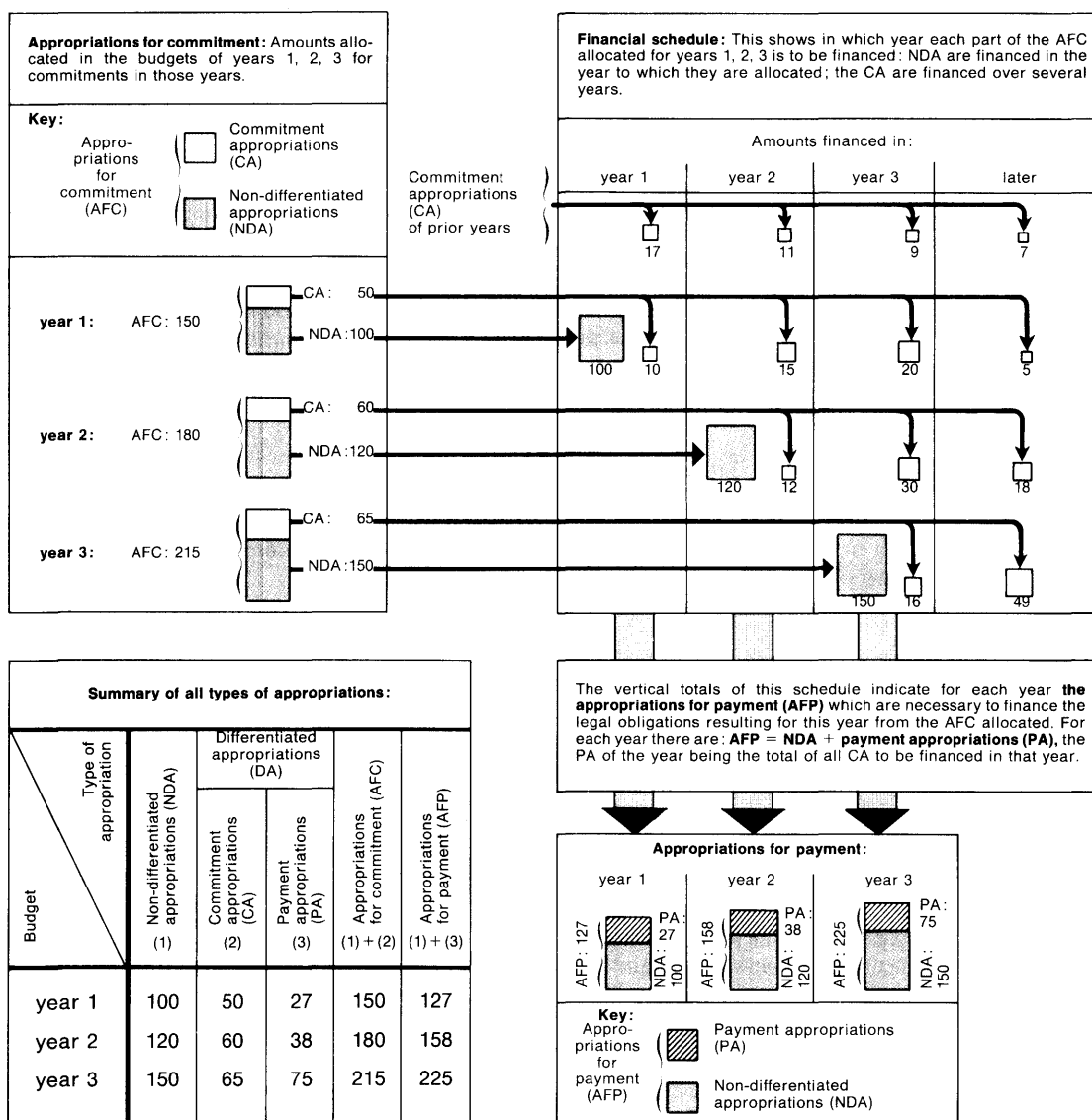
- a) **Differentiated appropriations (DA)** are used to finance multiannual activities in certain sectors. They comprise commitment appropriations and payment appropriations:
- **commitment appropriations (CA)** cover, for the current financial year, the legal obligations to be entered into for activities whose implementation extends over several financial years;
 - **payment appropriations (PA)** cover expenditure arising from commitments entered into in the financial year and/or preceding financial years.
- b) **Non-differentiated appropriations (NDA)** cover for annual activities both commitments and payments for the same financial year.

Thus it is possible to establish the following two totals for the same financial year:

- the total of **appropriations for commitment (AFC)** ⁽¹⁾ = non-differentiated appropriations (NDA) + commitment appropriations (CA) ⁽¹⁾;
- the total of **appropriations for payment (AFP)** ⁽¹⁾ = non-differentiated appropriations (NDA) + payment appropriations (PA) ⁽¹⁾.

Revenue raised in the budget is to cover the total appropriations for payment. Commitment appropriations are not financed until the corresponding payment appropriations have been entered in the budget.

The following simplified scheme (with illustrative amounts) shows the impact of these types of appropriations in each budget year:



⁽¹⁾ **Note:** It is important to note the differences between *appropriations for commitment* and *commitment appropriations* and between *appropriations for payment* and *payment appropriations*. The two terms *commitment appropriations* and *payment appropriations* are used exclusively in the context of *differentiated appropriations*.

1.8. Establishment of the general budget

Before 1 July of each year each institution draws up estimates of its expenditure for the following financial year (running from 1 January to 31 December). The Commission enters these estimates in a preliminary draft budget, and, not later than 1 September, places this before the Council, which with Parliament constitutes the budgetary authority. The Council establishes the draft budget and forwards it to Parliament not later than 5 October of the same year. Parliament can propose modifications to the draft budget for compulsory expenditure ⁽¹⁾ and make amendments for non-compulsory expenditure; these modifications and amendments are submitted to the Council. For compulsory expenditure the Council takes the final decision. For non-compulsory expenditure Parliament may, within the limits of a statistical maximum rate of increase, make amendments before taking the final decision. The President of Parliament declares that the budget has been finally adopted. However, Parliament may reject the draft budget and ask for a new draft to be submitted ⁽²⁾.

If at the beginning of a financial year the budget has not been voted, particular provisions of the Treaties and the Financial Regulation relating to the authorization of expenditure are to be applied ⁽³⁾.

Amending budgets (which do not alter the total amount of the annual budget) or supplementary budgets (which alter the total amount) can be adopted by the budgetary authority ⁽⁴⁾.

The budgetary allocation to a specific budget heading can be modified by transfers ⁽⁵⁾ from other budget headings.

1.9. Implementation of the general budget

1.9.1. Responsibility for implementation

The Commission implements the budget on its own responsibility in accordance with the Financial Regulation and within the limits of the appropriations allotted; it also confers upon the other institutions the requisite powers for the implementation of the sections of the budget relating to them ⁽⁶⁾. The Financial Regulation lays down the implementation procedures and, in particular, the responsibilities of the authorizing officers, accounting officers, administrators of advance funds and financial controllers of the institutions ⁽⁷⁾.

1.9.2. Implementation of revenue

The **estimated revenue** is entered in the budget subject to change by amending and supplementary budgets ⁽⁴⁾.

The budgetary implementation of revenue consists in establishing the entitlements and recovering the revenue due to the Communities (own resources and other revenue); it is governed by special provisions ⁽⁸⁾.

The **actual revenue of a financial year** is defined as the sum of recoveries upon entitlements established during the current financial year and recoveries upon entitlements still to be recovered from previous financial years.

1.9.3. Implementation of expenditure

The **estimated expenditure** is entered in the budget. According to the nature of the legal obligation involved, it is covered by appropriations for commitment or appropriations for payment. The budgetary implementation of expenditure, i.e. the evolution and utilization of appropriations, may be summarized as follows:

a) Appropriations for commitment

- Evolution of appropriations: The appropriations for commitment allocated in the initial budget can undergo certain modifications until the final appropriations for commitment are obtained: final appropriations for commitment = initial budget (NDA and CA) \pm amending and supplementary budgets ⁽⁴⁾ + supplementary receipts ⁽⁹⁾ \pm transfers ⁽⁵⁾ + commitment appropriations remaining from the preceding financial year ⁽¹⁰⁾ + non-automatic carry-overs ⁽¹¹⁾ from the preceding financial year (uncommitted NDA) + released commitment appropriations from preceding financial years (CA).
- Utilization of appropriations: The final appropriations for commitment are available in the financial year for use in the form of commitments entered into (appropriations for commitment utilized = amount of commitments entered into).
- Appropriations remaining available for the next financial year: Non-differentiated appropriations which have not been committed may be carried over non-automatically to the next financial year after approval by the Council ⁽¹¹⁾. Non-utilized commitment appropriations remain available for the next financial year ⁽¹⁰⁾.
- Cancellation of appropriations: The balance is cancelled.

b) Appropriations for payment of the financial year

- Evolution of appropriations: Appropriations for payment may also undergo modifications leading to the final appropriations for payment: final appropriations for payment = initial budget (NDA and PA) \pm amending and supplementary budgets ⁽⁴⁾ + supplementary receipts ⁽⁹⁾ \pm transfers ⁽⁵⁾.
- Utilization of appropriations: The final appropriations for payment are available in the financial year for use as payments (utilized appropriations for payment of the financial year = amount of payments made from the appropriations of the financial year).

- Carry-overs of appropriations to the next financial year: Appropriations not paid may be carried over to the next financial year in the form of automatic ⁽¹²⁾ or non-automatic ⁽¹¹⁾ carry-overs.
 - Cancellation of appropriations: The balance is cancelled.
- c) Appropriations for payment carried over from the preceding financial year (automatic and non-automatic carry-overs). In each financial year these appropriations (after possible transfers) are also available for use as payments. Carry-overs which remain unused during the year are cancelled, except in certain cases where carry-overs can be repeated ⁽¹³⁾. Amounts cancelled in this way are added to the result of the financial year in the consolidated revenue and expenditure account (see 1.9.4.).

With regard to actual expenditure, a distinction is made between:

- **actual expenditure during a financial year** = total payments during the financial year = payments against appropriations for payment of the financial year plus payments against appropriations for payment carried over from the preceding financial year.
- **actual expenditure charged to a financial year** = expenditure charged to the consolidated revenue and expenditure account (see 1.9.4.) = payments against appropriations for payment of the financial year plus appropriations for payment of the financial year carried over to the following financial year.

1.9.4. The consolidated revenue and expenditure account and the balance of the financial year

After the closure of each financial year the consolidated revenue and expenditure account is drawn up. **The balance of the year**, which is to be entered in the budget of the next financial year on the occasion of an amending budget, is determined therein ⁽¹⁴⁾ (see § 10).

1.10. Presenting the accounts

Not later than 1 June of the year following the closure of the financial year, the Commission forwards to Parliament, the Council and the Court of Auditors the accounts of that year: the accounts comprise a revenue and expenditure account and a balance sheet, together with an analysis of the financial management ⁽¹⁵⁾.

1.11. External audit

As from 1977 the external audit of the general budget has been carried out by the **Court of Auditors of the European Communities** ⁽¹⁶⁾. The Court of Auditors examines the accounts of all revenue and expenditure of the general budget, whether revenue has been received and expenditure incurred in a lawful and regular manner, and whether the financial management has been sound. The audits may be carried out before the closure of the financial year in question. The audits are performed on the basis of records and, where necessary, on the spot in the institutions of the Communities and in the Member States. The Court of Auditors draws up an annual report for each financial year and may also, at any time, submit observations on specific questions and deliver opinions at the request of one of the institutions of the Communities.

1.12. Discharge and follow-up

As from 1977 the following provisions are applicable ⁽¹⁷⁾: Parliament, on the recommendation of the Council, gives, before 30 April of the second year following the financial year in question, discharge to the Commission on the implementation of the budget. To this end the Council and Parliament in turn examine the accounts presented by the Commission and the annual report of the Court of Auditors. The institutions must take appropriate action on the comments appearing in the decisions giving discharge and report on the measures taken ⁽¹⁸⁾.

⁽¹⁾ Compulsory expenditure is that resulting necessarily from the Treaties or from acts adopted in accordance with them.

⁽²⁾ For details concerning the budgetary procedure see Articles 78 ECSC, 203 EEC and 177 Euratom.

⁽³⁾ Article 8 of the Financial Regulation.

⁽⁴⁾ Article 1 (5) of the Financial Regulation.

⁽⁵⁾ Article 21 of the Financial Regulation.

⁽⁶⁾ Articles 78d ECSC, 205 EEC, 179 Euratom and Article 18 (2) of the Financial Regulation.

⁽⁷⁾ Articles 17 to 49 and 68 to 72 of the Financial Regulation.

⁽⁸⁾ Articles 23 to 31 of the Financial Regulation; Council Regulations (EEC, Euratom, ECSC) Nos 2891/77 and 2892/77 of 19 December 1977 (OJ L 336, 27. 12. 1977).

⁽⁹⁾ Article 87 of the Financial Regulation and Article 91 (2) of the modified Financial Regulation.

⁽¹⁰⁾ Articles 6 (2) (a) and 88 (3) of the Financial Regulation.

⁽¹¹⁾ Article 6 (1) (b) of the Financial Regulation.

⁽¹²⁾ Articles 6 (1) (c), 6 (2) (b) and 88 (4) of the Financial Regulation.

⁽¹³⁾ Articles 6 (4) and 108 (3) (a, b) of the Financial Regulation.

⁽¹⁴⁾ Article 27 of the Financial Regulation and Articles 15 and 16 of Council Regulation (EEC, Euratom, ECSC) No 2891/77 (OJ L 336, 27. 12. 1977).

⁽¹⁵⁾ Articles 73 to 77 of the Financial Regulation.

⁽¹⁶⁾ Articles 78e, 78f ECSC, 206 and 206a EEC, 180 and 180a Euratom and Articles 78 to 84 of the Financial Regulation.

⁽¹⁷⁾ Articles 78g ECSC, 206b EEC, 180b Euratom.

⁽¹⁸⁾ Article 85 of the Financial Regulation.

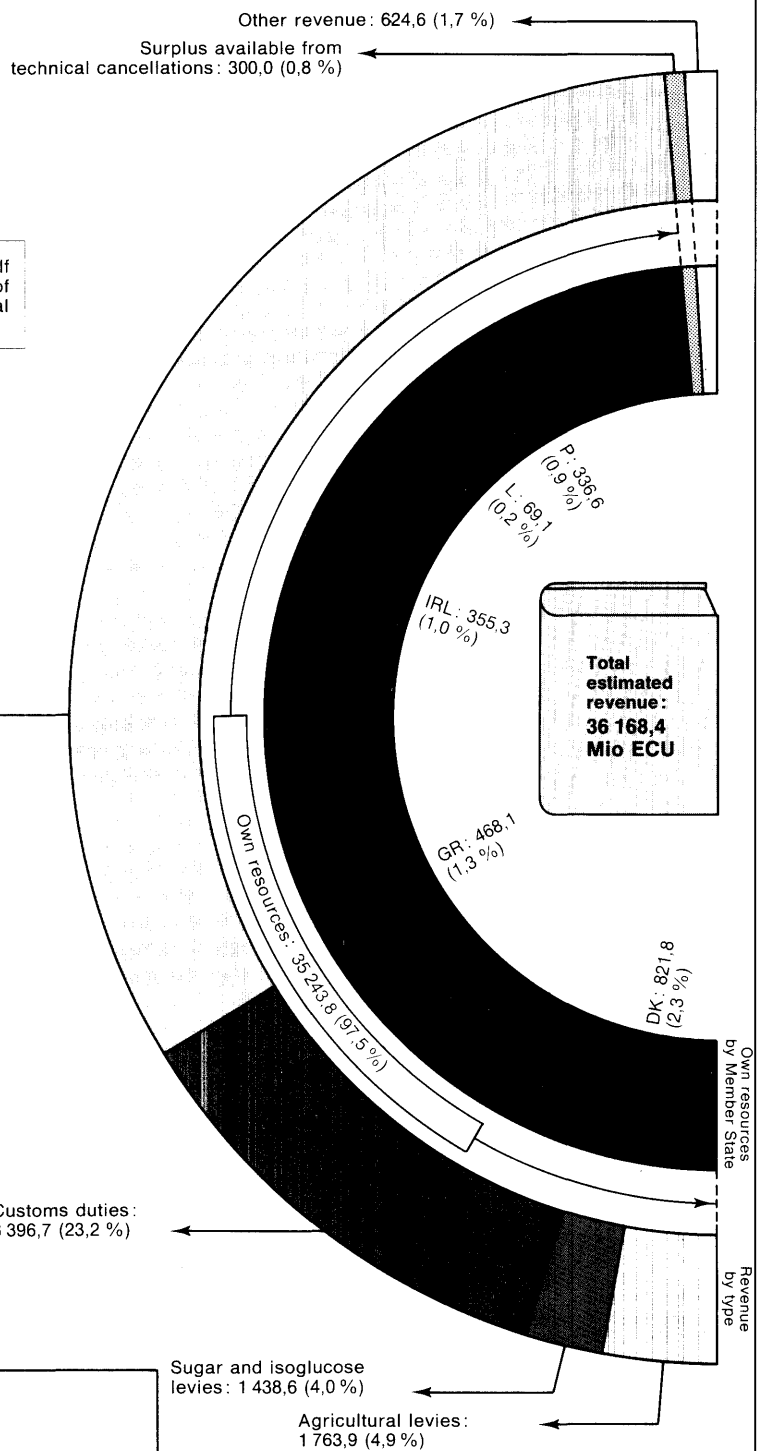
§ 2. General budget 1987: Estimated revenue

(after supplementary and amending budget No. 1;
for more detailed information: see § 5)

(Mio ECU and %)

Note: It should be noted that the Member States, acting on behalf of the Communities, are responsible for the collection of the amounts due in respect of customs duties, agricultural levies and sugar and isoglucose levies.

VAT own resources
and financial contributions: 23 644,6 (65,4 %)



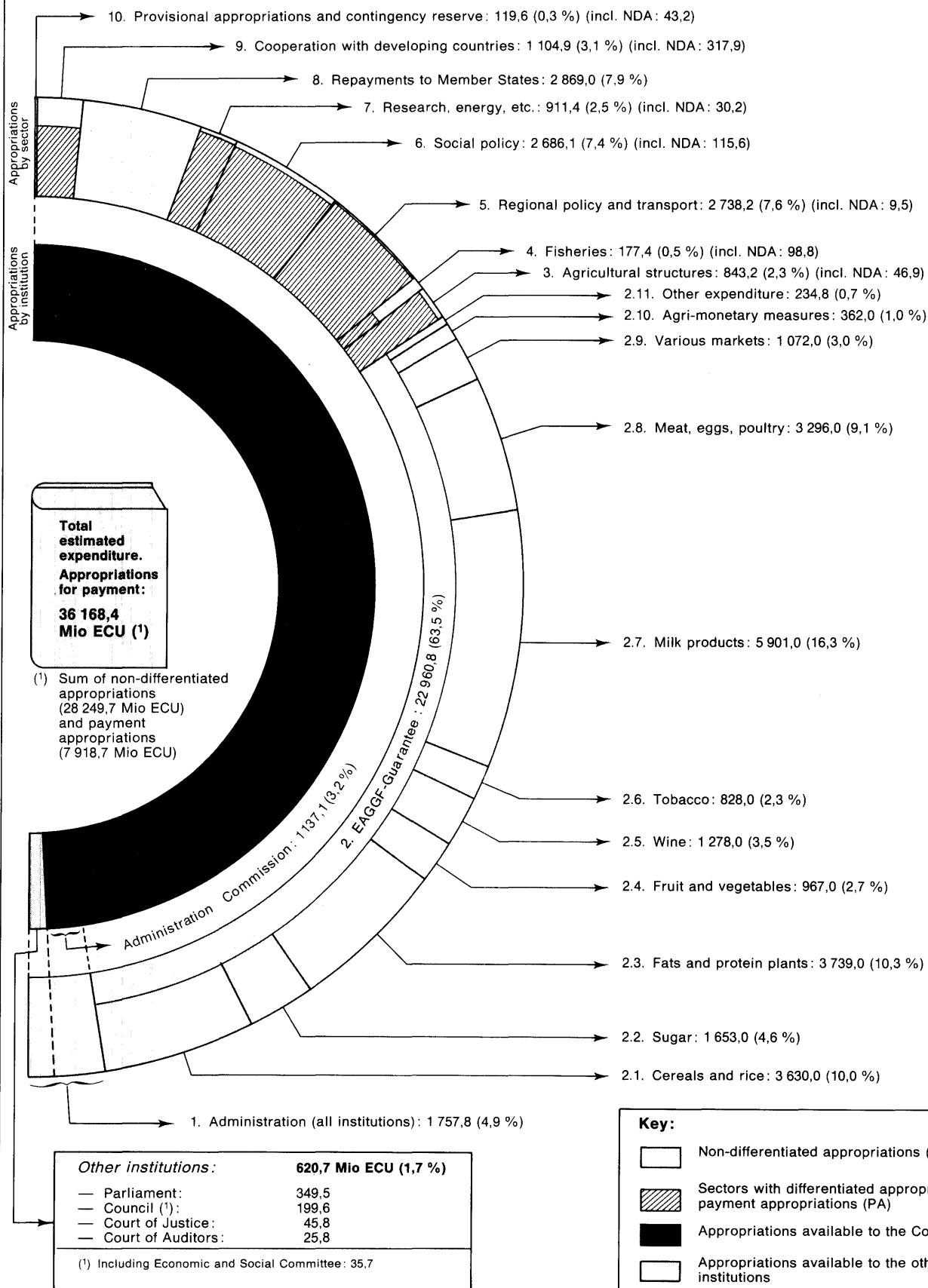
Key:

- | | | |
|---------------|--|--|
| Own resources | | Total own resources (by Member State) |
| | | Agricultural levies |
| | | Sugar and isoglucose levies |
| | | Customs duties |
| | | VAT own resources and financial contributions |
| | | Surplus available from technical cancellations |
| | | Other revenue |

§ 3. General budget 1987: estimated expenditure — appropriations for payment

(after supplementary and amending budget No. 1;
for more detailed information: see § 7, column 3)

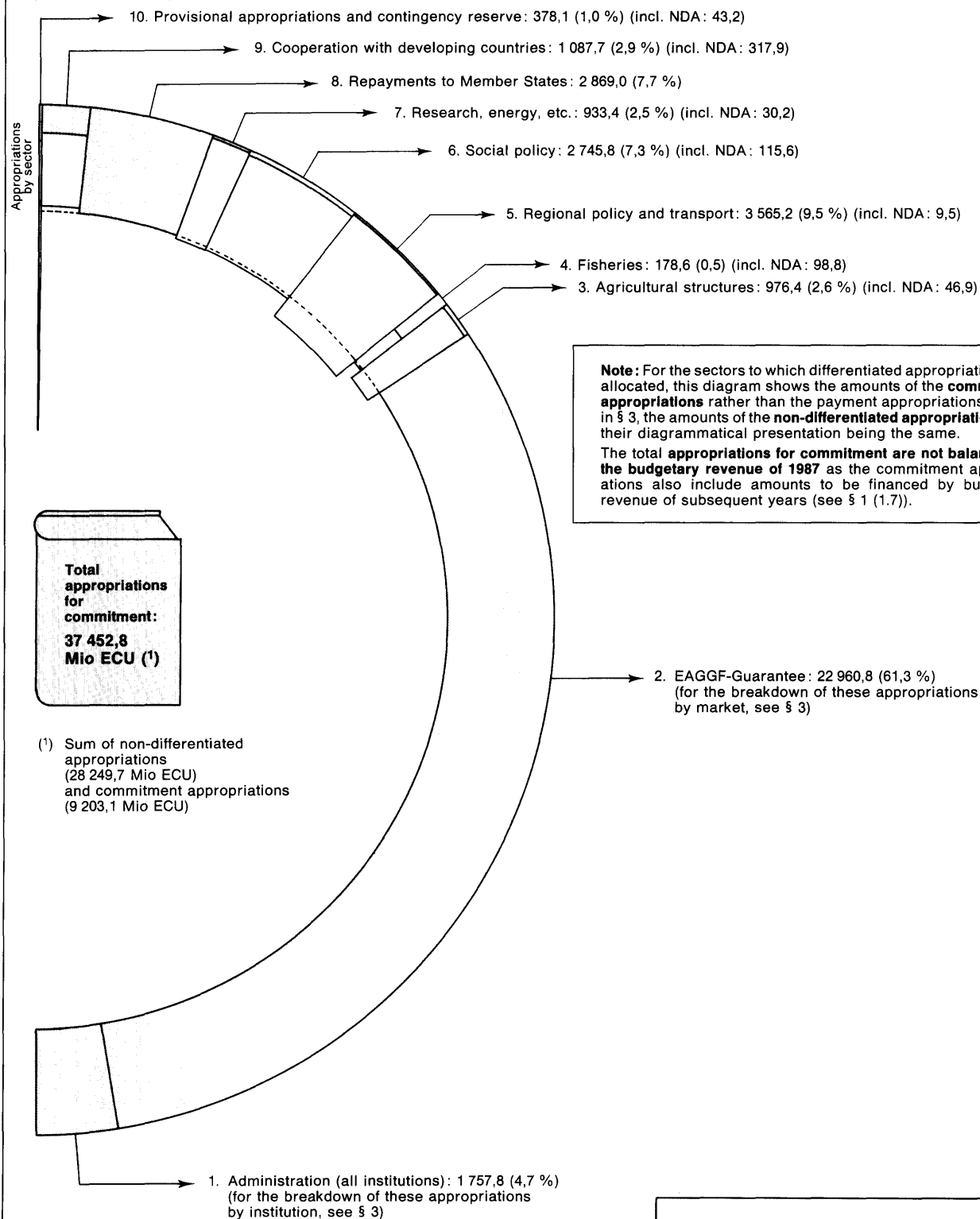
(Mio ECU and %)



§ 4. General budget 1987: Appropriations for commitment

(after supplementary and amending budget No. 1; for more detailed information: see § 6, column 3)

(Mio ECU and %)



§ 5. Estimated and actual revenue in 1987

A. Estimated and actual revenue in 1987:

Type of revenue (the Titles (T) or Chapters (Ch) corresponding to the budgetary nomenclature for 1987 are given in brackets)	Revenue as estimated in the 1987 budget (after supplementary & amending budget No. 1)		Actual revenue in 1987 (revenue collected during the financial year)	
	Mio ECU	%	Mio ECU	%
1. Own resources:				
— agricultural levies (Ch 10)	1 763,9	4,9	1 626,1	4,5
— sugar and isoglucose levies (Ch 11)	1 438,6	4,0	1 471,7	4,1
— customs duties (Ch 12)	8 396,7	23,2	8 936,5	25,0
— VAT own resources (Ch 13)	23 433,0	64,8	23 463,5	65,6
— financial contribution (GNP) Portugal (Ch 20)	211,6	0,6	210,6	0,6
— balances and adjustments prior to 1987 of VAT own resources and financial contributions (Ch 31)	p.m.	—	— 359,3	— 1,0
Total own resources	35 243,8	97,5	35 349,1	98,8
2. Surplus available from the preceding financial year (Ch 30)	p.m.	—	—	—
Surplus available from technical cancellations (Ch 32)	300,0	0,8	—	—
3. Other revenue (T 4-9)	624,6	1,7	434,2	1,2
Total revenue	36 168,4	100	35 783,3	100

B. Estimated and actual own resources in 1987 by Member State:

Note: It should be noted that the Member States, acting on behalf of the Communities, are responsible for the collection of the amounts due in respect of customs duties, agricultural levies and sugar and isoglucose levies.

(Mio ECU)

Type of resource	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
Agricultural levies:													
— estimated	253,0	16,9	229,3	19,3	284,0	156,2	14,9	342,8	0,4	166,4	43,8	236,9	1 763,9
— actual	284,8	15,4	155,3	19,1	77,5	108,3	5,8	411,3	0,2	96,8	41,5	410,1	1 626,1
Sugar and isoglucose levies:													
— estimated	103,0	56,5	385,9	14,3	58,1	449,7	11,8	157,4	—	119,2	0,4	82,3	1 438,6
— actual	106,2	59,0	394,0	12,5	53,4	452,6	12,0	166,6	—	125,8	0,2	89,4	1 471,7
Customs duties:													
— estimated	490,0	214,7	2 467,1	90,5	366,4	1 129,8	111,5	782,2	6,5	775,2	80,8	1 882,0	8 396,7
— actual	529,0	194,0	2 617,8	92,3	382,7	1 212,6	112,0	875,7	7,3	817,6	93,9	2 001,6	8 936,5
VAT own resources/financial contributions ⁽¹⁾ ⁽²⁾ :													
— estimated	762,9	533,7	6 451,1	344,0	1 814,4	5 300,9	217,1	3 639,3	62,2	1 203,2	211,6	3 104,2	23 644,6
— actual	782,6	576,3	6 217,5	216,5	1 195,1	5 556,5	207,7	3 738,0	66,0	1 326,0	206,2	3 226,4	23 314,8
Total own resources:													
— estimated	1 608,9	821,8	9 533,4	468,1	2 522,9	7 036,6	355,3	4 921,7	69,1	2 264,0	336,6	5 305,4	35 243,8
— actual	1 702,6	844,7	9 384,6	340,4	1 708,7	7 330,0	337,5	5 191,6	73,5	2 366,2	341,8	5 727,5	35 349,1

⁽¹⁾ Portugal paid a financial contribution based on its GNP.

⁽²⁾ Including balances and adjustments prior to 1987.

§ 6. Appropriations for commitment available in 1987 and their utilization – by sector and by institution

(Mio ECU)

Sector and institution (the Sections (S), Titles (T) and Chapters (Ch) corresponding to the 1987 budgetary nomenclature are shown in brackets)		Type of appropriations: - non-differentiated appropriations (NDA); - commitment appropriations (CA)	Evolution of appropriations			Utilization of appropriations				
			Initial budget 1987	Final budget 1987 (after supplementary and amending budget No. 1)	Final appropriations available in 1987 ⁽¹⁾	Commitments entered into in 1987		Appropriations remaining available for 1988		Cancellations
								Non-automatic carry-overs (NDA) to 1988	CA remaining at close of 1987	
						Amount	Rate (%)			
		(1)	(2)	(3)	(4)	(5)	(5a) = (5/4)	(6)	(7)	(8) = (4 - 5 - 6 - 7)
1. Administration (all institutions)		NDA	1 757,8	1 757,8	1 759,9	1 719,0	(97,7)	—	—	40,9
1.1. Commission (S III, Part A)		NDA	1 137,1	1 137,1	1 139,2	1 120,0	(98,3)	—	—	19,2
1.2. Other institutions (SI, II, IV, V)		NDA	620,7	620,7	620,7	599,0	(96,5)	—	—	21,7
Operating appropriations (Commission, Part B)	2. EAGGF-Guarantee (T 1-2)	NDA	22 960,8	22 960,8	22 960,8	22 950,3	(99,9)	—	—	10,5
	2.1. Cereals and rice (Ch 10)	NDA	3 630,0	3 630,0	4 236,7	4 236,6	(99,9)	—	—	0,1
	2.2. Sugar (Ch 11)	NDA	1 653,0	1 653,0	2 035,6	2 035,6	(100)	—	—	0,0
	2.3. Fats and protein plants (Ch 12-13)	NDA	3 739,0	3 739,0	4 413,9	4 413,8	(99,9)	—	—	0,1
	2.4. Fruit and vegetables (Ch 15)	NDA	967,0	967,0	967,2	967,1	(99,9)	—	—	0,1
	2.5. Wine (Ch 16)	NDA	1 278,0	1 278,0	800,3	800,3	(100)	—	—	0,0
	2.6. Tobacco (Ch 17)	NDA	828,0	828,0	803,6	803,6	(100)	—	—	0,0
	2.7. Milk products (Ch 20)	NDA	5 901,0	5 901,0	5 013,7	5 013,0	(99,9)	—	—	0,7
	2.8. Meat, eggs, poultry (Ch 21-24)	NDA	3 296,0	3 296,0	3 033,2	3 033,1	(99,9)	—	—	0,1
	2.9. Various markets (Ch 14, 18, 25)	NDA	1 072,0	1 072,0	949,2	941,1	(99,1)	—	—	8,1
	2.10. Agri-monetary measures (Ch 27-28)	NDA	362,0	362,0	655,0	654,9	(99,9)	—	—	0,1
	2.11. Other expenditure (Ch 29)	NDA	234,8	234,8	52,4	51,2	(97,7)	—	—	1,2
	3. Agricultural structures (T 3) (of which: non-differentiated appropriations)	NDA + CA (NDA)	976,4 (46,9)	976,4 (46,9)	1 067,8 (29,6)	979,2 (25,1)	(91,7) (84,8)	— (—)	59,0 (—)	29,6 (4,5)
	3.1. EAGGF-Guidance (Ch 30-33)	CA	917,2	917,2	1 024,6	940,5	(91,8)	—	59,0	25,1
	3.2. Specific measures (Ch 38)	NDA + CA	59,2	59,2	43,2	38,7	(89,6)	—	0,0	4,5
	4. Fisheries (T 4) (of which: non-differentiated appropriations)	NDA + CA (NDA)	193,6 (113,8)	178,6 (98,8)	295,3 (109,8)	232,4 (99,3)	(78,7) (90,4)	— (—)	6,5 (—)	56,4 (10,5)
	4.1. Common organization of the market (Ch 40)	NDA	42,7	27,7	27,7	17,4	(62,8)	—	—	10,3
	4.2. Other measures (Ch 41-42, 44-47)	NDA + CA	150,9	150,9	267,6	215,0	(80,3)	—	6,5	46,1
	5. Regional policy and transport (T 5) (of which: non-differentiated appropriations)	NDA + CA (NDA)	3 565,2 (9,5)	3 565,2 (9,5)	4 119,4 (8,8)	3 931,9 (8,4)	(95,4) (95,5)	— (—)	149,7 (—)	37,8 (0,4)
	5.1. Regional Fund (Ch 50-51)	CA	3 341,9	3 341,9	3 668,0	3 662,1	(99,8)	—	3,3	2,6
	5.2. Transport (Ch 58)	NDA + CA	3,2	3,2	56,2	56,1	(99,8)	—	—	0,1
	5.3. Other measures (Ch 54-57)	NDA + CA	220,1	220,1	395,2	213,7	(54,1)	—	146,4	35,1
	6. Social policy (T 6) (of which: non-differentiated appropriations)	NDA + CA (NDA)	2 745,8 (115,6)	2 745,8 (115,6)	3 758,1 (148,9)	3 694,2 (130,3)	(98,3) (87,5)	16,7 (16,7)	2,1 (—)	45,1 (1,9)
	6.1. Social Fund (Ch 60-61)	CA	2 602,5	2 602,5	3 565,8	3 523,6	(98,8)	—	0,0	42,2
	6.2. Other measures (Ch 63-67, 69)	NDA + CA	143,3	143,3	192,3	170,6	(88,7)	16,7	2,1	2,9
	7. Research, energy, etc. (T 7) (of which: non-differentiated appropriations)	NDA + CA (NDA)	933,4 (30,2)	933,4 (30,2)	1 448,8 (27,6)	1 336,2 (27,0)	(92,2) (97,8)	— (—)	103,1 (—)	9,5 (0,6)
	7.1. Energy (Ch 70)	NDA + CA	117,7	117,7	159,5	153,0	(95,9)	—	—	6,5
	7.2. Research and investment (Ch 73)	CA	716,1	716,1	1 162,8	1 067,2	(91,8)	—	95,1	0,5
	7.3. Industry and internal market (Ch 77)	NDA + CA	78,0	78,0	98,9	90,4	(91,4)	—	6,1	2,4
	7.4. Other measures (Ch 71, 75-76, 78-79)	NDA + CA	21,6	21,6	27,6	25,6	(92,8)	—	1,9	0,1
	8. Repayments to Member States (T 8)	NDA	2 816,1	2 869,0	2 869,0	2 380,9	(83,0)	—	—	488,1
	8.1. Costs incurred in collect. own resources (Ch 80)	NDA	1 305,9	759,9	759,9	759,9	(100)	—	—	—
	8.2. Other repayments (Ch 83-87)	NDA	1 510,2	2 109,1	2 109,1	1 621,0	(76,9)	—	—	488,1
9. Cooperation with developing countries (T 9) (of which: non-differentiated appropriations)	NDA + CA (NDA)	1 087,7 (317,9)	1 087,7 (317,9)	1 407,2 (317,4)	1 265,4 (283,1)	(89,9) (89,2)	— (—)	98,1 (—)	43,7 (34,3)	
9.1. Food aid (Ch 92)	NDA + CA	511,5	511,5	604,1	572,0	(94,7)	—	—	32,1	
9.2. Financial aid (Ch 90-91, 93-99)	NDA + CA	576,2	576,2	803,1	693,4	(86,3)	—	98,1	11,6	
10. Prov. appropriat. a. contingency res. (Ch 100-101) (of which: non-differentiated appropriations)	NDA + CA (NDA)	378,1 (43,2)	378,1 (43,2)	115,2 (4,0)	— (—)	(—) (—)	— (—)	— (—)	115,2 (4,0)	
Total operating appropriations (S III, B) (of which: non-differentiated appropriations)	NDA + CA (NDA)	35 657,1 (26 454,0)	35 695,0 (26 491,9)	38 041,6 (26 475,9)	36 770,5 (25 904,4)	(96,7) (97,8)	16,7 (16,7)	418,5 (—)	835,9 (554,8)	
Grand total		NDA + CA NDA CA	37 414,9 28 211,8 9 203,1	37 452,8 28 249,7 9 203,1	39 801,5 28 235,8 11 565,7	38 489,5 27 623,4 10 866,1	(96,7) (97,8) (94,0)	16,7 — —	418,5 — 418,5	876,8 595,7 281,1
Institutions	Parliament (S I)	NDA	349,5	349,5	349,5	337,7	(96,6)	—	—	11,8
	Council (S II)	NDA	199,6	199,6	199,6	192,1	(96,2)	—	—	7,5
	(of which: Economic and Social Committee)	(NDA)	(35,7)	(35,7)	(35,7)	(35,2)	(98,6)	(—)	(—)	(0,5)
	Commission (S III)	NDA + CA	36 794,2	36 832,1	39 180,8	37 890,5	(96,7)	16,7	418,5	855,1
	(of which: non-differentiated appropriations)	(NDA)	(27 591,1)	(27 629,0)	(27 615,1)	(27 024,4)	(97,9)	(16,7)	(—)	(574,0)
	Court of Justice (S IV)	NDA	45,8	45,8	45,8	44,0	(96,1)	—	—	1,8
Court of Auditors (S V)	NDA	25,8	25,8	25,8	25,2	(97,7)	—	—	0,6	
Grand total		NDA + CA	37 414,9	37 452,8	39 801,5	38 489,5	(96,7)	16,7	418,5	876,8

⁽¹⁾ Budget appropriations amended after taking account of commitment appropriations remaining from 1986 appropriations corresponding to receipts for services performed on behalf of outside bodies and transfers between budget headings; not including non-automatic carry-overs from 1986.

§ 7. Appropriations for payment available in 1987 and their utilization – by sector and by institution

(Mio ECU)

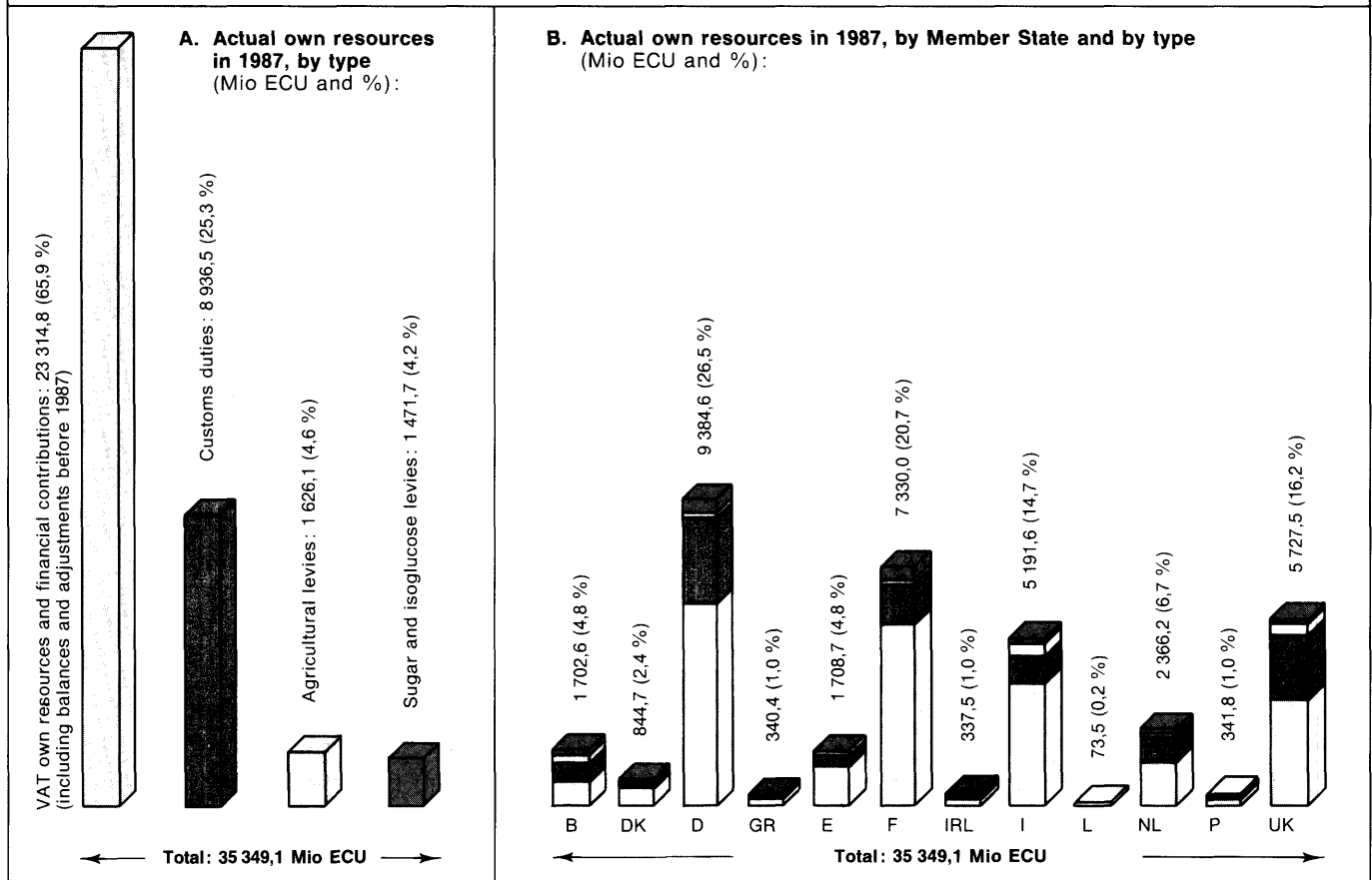
Sector and institution (for the corresponding terms and budget headings see § 6)		Type of appropriations: - non-differentiated appropriations (NDA); - payment appropriations (PA)	A. Appropriations of the financial year 1987						B. Carry-overs from 1986				C. Total appropriations available and payments in 1987			
			Evolution of appropriations			Utilization of appropriations			Appropriations carried over from 1986 (after transfers)	Utilization of appropriations			Total appropriations available in 1987	Total payments made in 1987		
			Initial budget 1987	Final budget 1987 (after supplement- ary and amending budget No. 1.)	Final appro- priations 1987 (1)	Payments made in 1987	Carry-overs to 1988 (2)	Cancellations		Payments made in 1987	Carry-overs to 1988	Cancellations		Amount	Rate(%) (13a) (13/12)	
			(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4 - 5 - 6)	(8)	(9)	(10)	(11) = (8 - 9 - 10)	(12) = (4 + 8)	(13) = (5 + 9)	(13a) (13/12)
1. Administration		NDA	1 757,8	1 757,8	1 759,9	1 577,0	142,0	40,9		123,6	106,4	—	17,2	1 883,5	1 683,4	(89,4)
1.1. Commission		NDA	1 137,1	1 137,1	1 139,2	1 032,4	87,6	19,2		75,0	66,1	—	8,9	1 214,2	1 098,5	(90,5)
1.2. Other institutions		NDA	620,7	620,7	620,7	544,6	54,4	21,7		48,6	40,3	—	8,3	669,3	584,9	(87,4)
Operating appropriations (Commission, Part B)	2. EAGGF-Guarantee	NDA	22 960,8	22 960,8	22 960,8	22 949,6	0,7	10,5		3,5	2,2	—	1,3	22 964,3	22 951,8	(99,9)
	2.1. Cereals and rice	NDA	3 630,0	3 630,0	4 236,7	4 236,6	—	0,1		—	—	—	—	4 236,7	4 236,6	(99,9)
	2.2. Sugar	NDA	1 653,0	1 653,0	2 035,6	2 035,6	—	0,0		—	—	—	—	2 035,6	2 035,6	(100)
	2.3. Fats...	NDA	3 739,0	3 739,0	4 413,9	4 413,5	0,3	0,1		0,2	0,2	—	0,0	4 414,1	4 413,7	(99,9)
	2.4. Fruit a. vegetab.	NDA	967,0	967,0	967,2	967,1	—	0,1		—	—	—	—	967,2	967,1	(99,9)
	2.5. Wine	NDA	1 278,0	1 278,0	800,3	800,3	—	0,0		—	—	—	—	800,3	800,3	(100)
	2.6. Tobacco	NDA	828,0	828,0	803,6	803,6	—	0,0		—	—	—	—	803,6	803,6	(100)
	2.7. Milk products	NDA	5 901,0	5 901,0	5 013,7	5 013,0	—	0,7		—	—	—	—	5 013,7	5 013,0	(99,9)
	2.8. Meat...	NDA	3 296,0	3 296,0	3 033,2	3 033,1	—	0,1		—	—	—	—	3 033,2	3 033,1	(99,9)
	2.9. Various markets	NDA	1 072,0	1 072,0	949,2	940,7	0,4	8,1		3,3	2,0	—	1,3	952,5	942,7	(99,0)
	2.10. Agri-monetary...	NDA	362,0	362,0	655,0	654,9	—	0,1		—	—	—	—	655,0	654,9	(99,9)
	2.11. Other expenditure	NDA	234,8	234,8	52,4	51,2	—	1,2		—	—	—	—	52,4	51,2	(97,7)
	3. Agricultural structures (of which: NDA)	NDA + PA (NDA)	896,2 (46,9)	843,2 (46,9)	830,1 (29,6)	799,0 (1,6)	26,6 (23,5)	4,5 (4,5)		101,8 (18,5)	89,6 (14,5)	— (—)	12,2 (4,0)	931,9 (48,1)	888,6 (16,1)	(95,4) (33,5)
	3.1. EAGGF-Guidance	PA	840,1	787,1	790,3	788,1	2,2	—		81,8	75,1	—	6,7	872,1	863,2	(99,0)
	3.2. Specific measures	NDA + PA	56,1	56,1	39,8	10,9	24,4	4,5		20,0	14,5	—	5,5	59,8	25,4	(42,5)
	4. Fisheries (of which: NDA)	NDA + PA (NDA)	197,3 (113,8)	177,4 (98,8)	174,0 (109,8)	124,6 (78,5)	38,9 (20,8)	10,5 (10,5)		42,4 (21,4)	33,2 (20,9)	— (—)	9,2 (0,5)	216,4 (131,2)	157,8 (99,4)	(72,9) (75,8)
	4.1. Com. organ...	NDA	42,7	27,7	27,7	17,4	—	10,3		—	—	—	—	27,7	17,4	(62,8)
	4.2. Other measures	NDA + PA	154,6	149,7	146,3	107,2	38,9	0,2		42,4	33,2	—	9,2	188,7	140,4	(74,4)
	5. Regional policy... (of which: NDA)	NDA + PA (NDA)	2 738,2 (9,5)	2 738,2 (9,5)	2 679,5 (8,8)	2 479,9 (0,3)	199,2 (8,1)	0,4 (0,4)		242,6 (3,2)	207,4 (1,8)	— (—)	35,2 (1,4)	2 922,1 (12,0)	2 687,3 (2,1)	(92,0) (17,5)
	5.1. Regional Fund	PA	2 497,3	2 497,3	2 562,3	2 447,1	115,2	—		94,2	87,9	—	6,3	2 656,5	2 535,0	(95,4)
	5.2. Transport	NDA + PA	27,1	27,1	27,1	22,6	4,4	0,1		1,9	1,7	—	0,2	29,0	24,3	(83,8)
	5.3. Other measures	NDA + PA	213,8	213,8	90,1	10,2	79,6	0,3		146,5	117,8	—	28,7	236,6	128,0	(54,1)
	6. Social policy (of which: NDA)	NDA + PA (NDA)	2 686,1 (115,6)	2 686,1 (115,6)	2 724,8 (148,9)	2 615,4 (81,4)	107,5 (65,6)	1,9 (1,9)		259,3 (37,4)	237,1 (28,6)	— (—)	22,2 (8,8)	2 984,1 (186,3)	2 852,5 (110,0)	(95,6) (59,0)
	6.1. Social Fund	PA	2 542,3	2 542,3	2 542,3	2 509,9	32,4	—		211,5	205,4	—	6,1	2 753,8	2 715,3	(98,6)
	6.2. Other measures	NDA + PA	143,8	143,8	182,5	105,5	75,1	1,9		47,8	31,7	—	16,1	230,3	137,2	(59,6)
	7. Research, etc. (of which: NDA)	NDA + PA (NDA)	911,4 (30,2)	911,4 (30,2)	965,9 (27,6)	803,1 (6,3)	161,7 (20,7)	1,1 (0,6)		112,5 (31,4)	97,2 (26,2)	2,3 (—)	13,0 (5,2)	1 078,4 (59,0)	900,3 (32,5)	(83,5) (55,1)
	7.1. Energy	NDA + PA	81,6	81,6	89,6	88,6	1,0	0,0		1,6	1,1	—	0,5	91,2	89,7	(98,4)
	7.2. Research...	PA	731,8	731,8	775,4	657,9	117,0	0,5		65,0	62,3	2,3	0,4	840,4	720,2	(85,7)
	7.3. Industry...	NDA + PA	73,7	73,7	71,1	34,9	35,7	0,5		38,3	28,9	—	9,4	109,4	63,8	(58,3)
	7.4. Other measures	NDA + PA	24,3	24,3	29,8	21,7	8,0	0,1		7,6	4,9	—	2,7	37,4	26,6	(71,1)
	8. Repayments...	NDA	2 816,1	2 869,0	2 869,0	2 281,1	99,8	488,1		127,8	127,8	—	—	2 996,8	2 408,9	(80,4)
	8.1. Costs inc. in coll. or	NDA	1 305,9	759,9	759,9	660,1	99,8	—		127,8	127,8	—	—	887,7	787,9	(88,8)
8.2. Other repayments	NDA	1 510,2	2 109,1	2 109,1	1 621,0	—	488,1		—	—	—	—	2 109,1	1 621,0	(76,9)	
9. Cooperation... (of which: NDA)	NDA + PA (NDA)	1 229,9 (317,9)	1 104,9 (317,9)	1 097,4 (317,4)	481,3 (121,2)	581,8 (161,9)	34,3 (34,3)		391,7 (88,5)	312,5 (64,9)	— (—)	79,2 (23,6)	1 489,1 (405,9)	793,8 (186,1)	(53,3) (45,8)	
9.1. Food aid	NDA + PA	597,6	572,6	572,6	179,6	360,8	32,2		161,1	125,6	—	35,5	733,7	305,2	(41,6)	
9.2. Financial aid	NDA + PA	632,3	532,3	524,8	301,7	221,0	2,1		230,6	186,9	—	43,7	755,4	488,6	(64,7)	
10. Prov. approps... (of which: NDA)	NDA + PA (NDA)	119,6 (43,2)	119,6 (43,2)	109,2 (4,0)	— (—)	— (—)	109,2 (4,0)		— (—)	— (—)	— (—)	— (—)	109,2 (4,0)	— (—)	— (—)	
Total operating approps. (of which: NDA)	NDA + PA (NDA)	34 555,6 (26 454,0)	34 410,6 (26 491,9)	34 410,7 (26 475,9)	32 534,0 (25 520,0)	1 216,2 (401,1)	660,5 (554,8)		1 281,6 (331,7)	1 107,0 (286,9)	2,3 (—)	172,3 (44,8)	35 692,3 (26 807,6)	33 641,0 (25 806,9)	(94,3) (96,3)	
Grand total		NDA + PA NDA PA	36 313,4 28 211,8 8 101,6	36 168,4 28 249,7 7 918,7	36 170,6 28 235,8 7 934,8	34 111,0 27 097,0 7 014,0	1 358,2 543,1 815,1	701,4 595,7 105,7		1 405,2 455,3 949,9	1 213,4 393,3 820,1	2,3 — 2,3	189,5 62,0 127,5	37 575,8 28 691,1 8 884,7	35 324,4 27 490,3 7 834,1	(94,0) (95,8) (88,2)
Institutions	Parliament	NDA	349,5	349,5	349,5	302,1	35,6	11,8		23,7	20,2	—	3,5	373,2	322,3	(86,4)
	Council	NDA	199,6	199,6	199,6	177,0	15,1	7,5		21,4	17,2	—	4,2	221,0	194,2	(87,9)
	(of which: ESC)	(NDA)	(35,7)	(35,7)	(35,7)	(34,4)	(0,8)	(0,5)		(1,0)	(0,9)	(—)	(0,1)	(36,7)	(35,3)	(96,2)
	Commission	NDA + PA	35 692,7	35 547,7	35 549,9	33 566,4	1 303,8	679,7		1 356,6	1 173,1	2,3	181,2	36 906,5	34 739,5	(94,1)
	(of which: NDA)	(NDA)	(27 591,1)	(27 629,0)	(27 615,1)	(26 552,4)	(488,7)	(574,0)		(406,7)	(353,0)	(—)	(53,7)	(28 021,8)	(26 905,4)	(96,0)
	Court of Justice	NDA	45,8	45,8	45,8	41,7	2,3	1,8		2,6	2,2	—	0,4	48,4	43,9	(90,7)
Court of Auditors	NDA	25,8	25,8	25,8	23,8	1,4	0,6		0,9	0,7	—	0,2	26,7	24,5	(91,8)	
Grand total		NDA + PA	36 313,4	36 168,4	36 170,6	34 111,0	1 358,2	701,4		1 405,2	1 213,4	2,3	189,5	37 575,8	35 324,4	(94,0)

(1) Budget appropriations amended after taking account of transfers between budget headings and receipts for services performed on behalf of outside bodies.

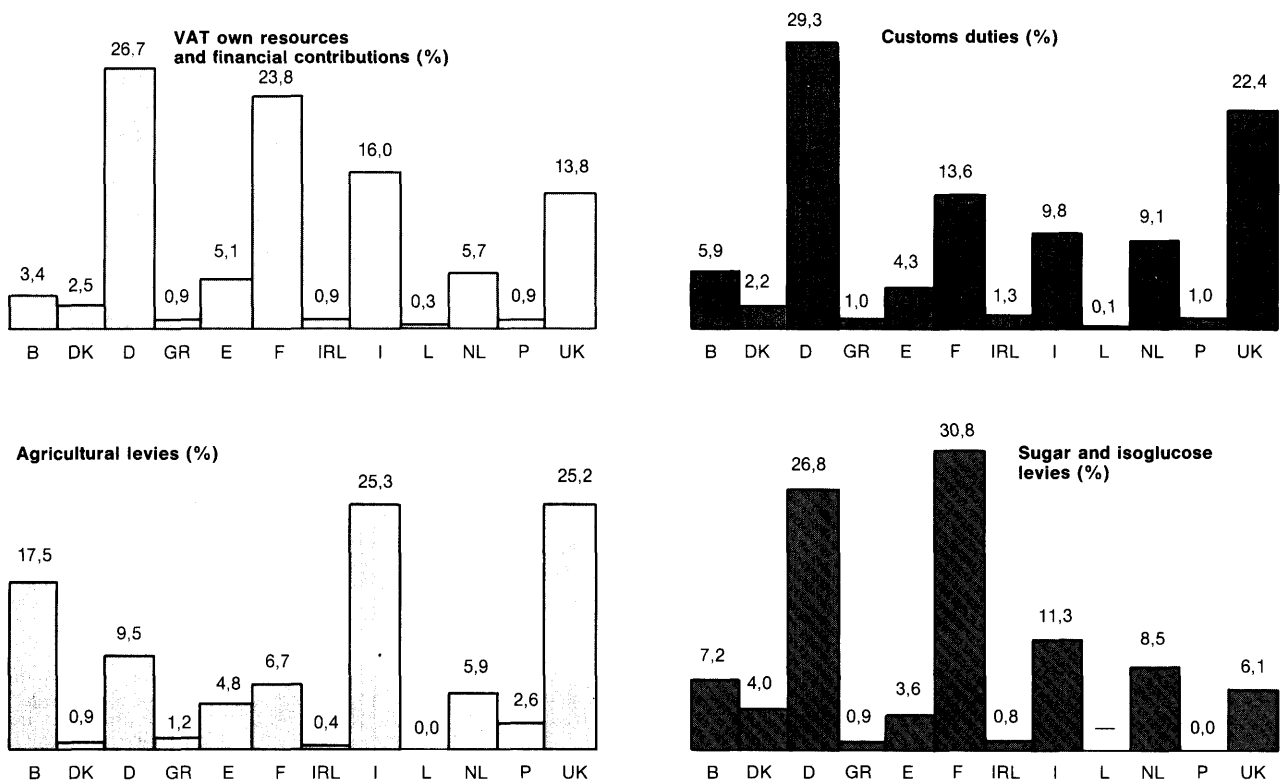
(2) Automatic and non-automatic carry-overs.

§ 8. Actual own resources in 1987

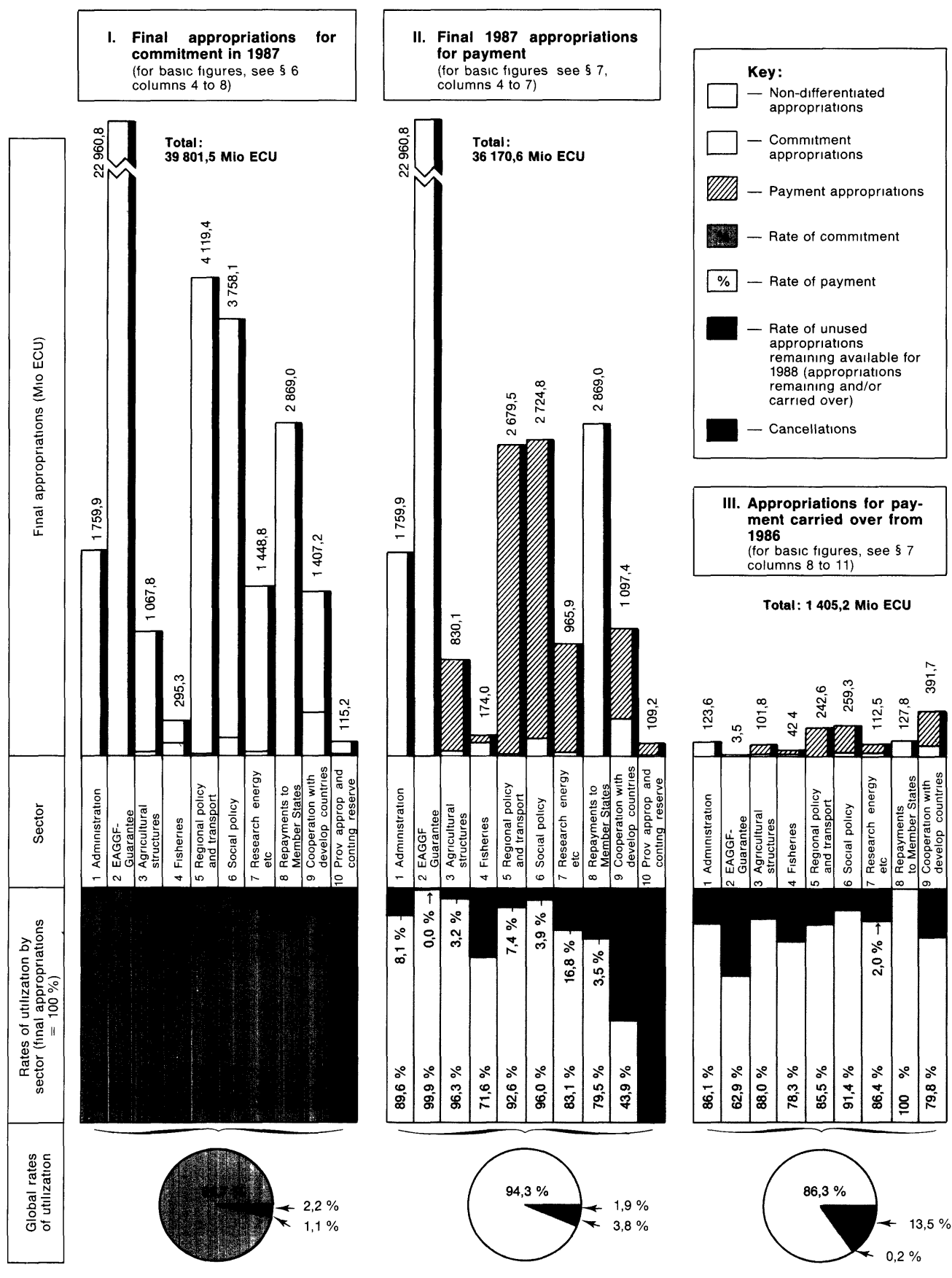
(for basic figures, see § 5)



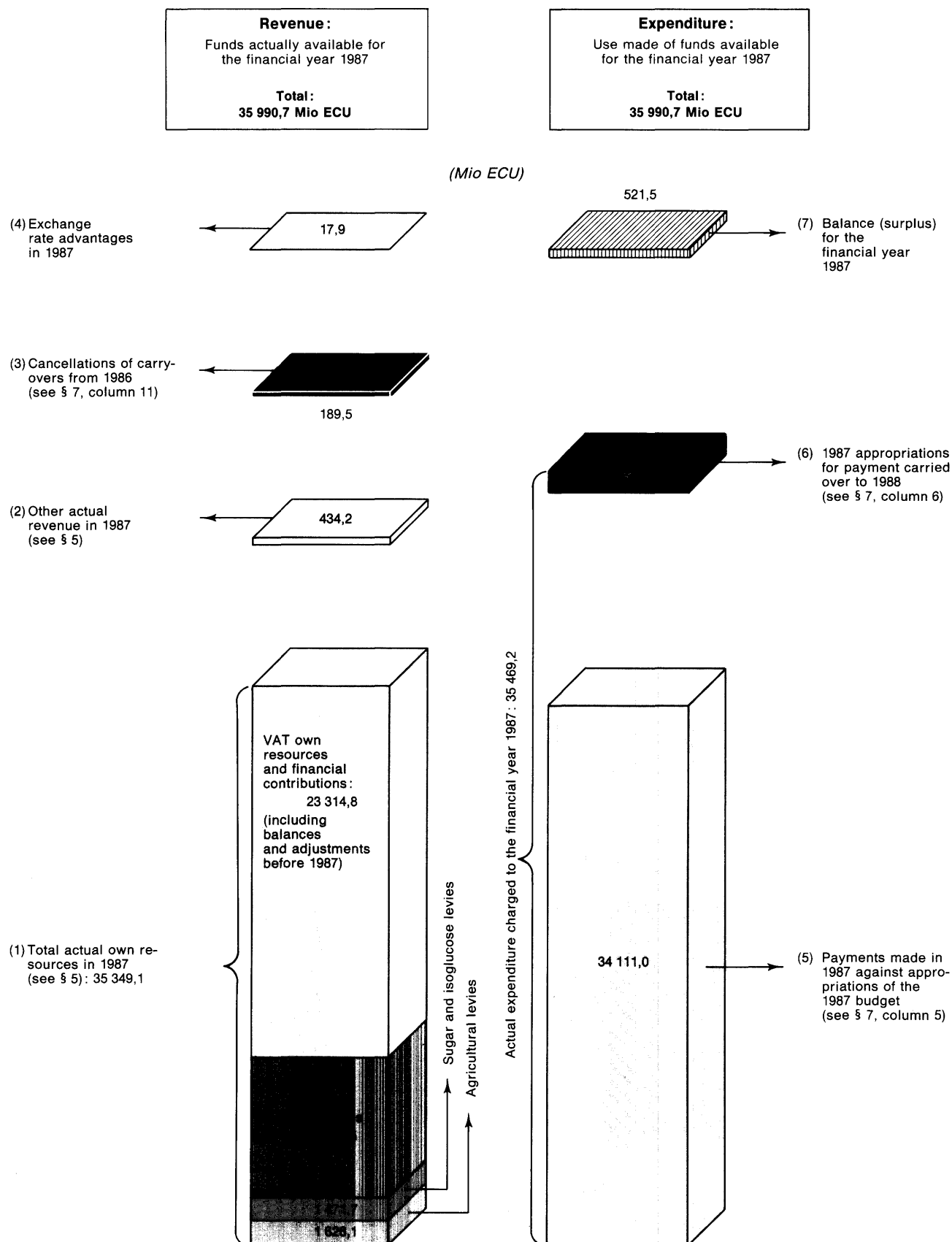
C. Types of own resources, by Member State:



§ 9. Rate of utilization of appropriations available in 1987, by sector



§ 10. The consolidated revenue and expenditure account and the balance of the financial year 1987
(Application of Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77)

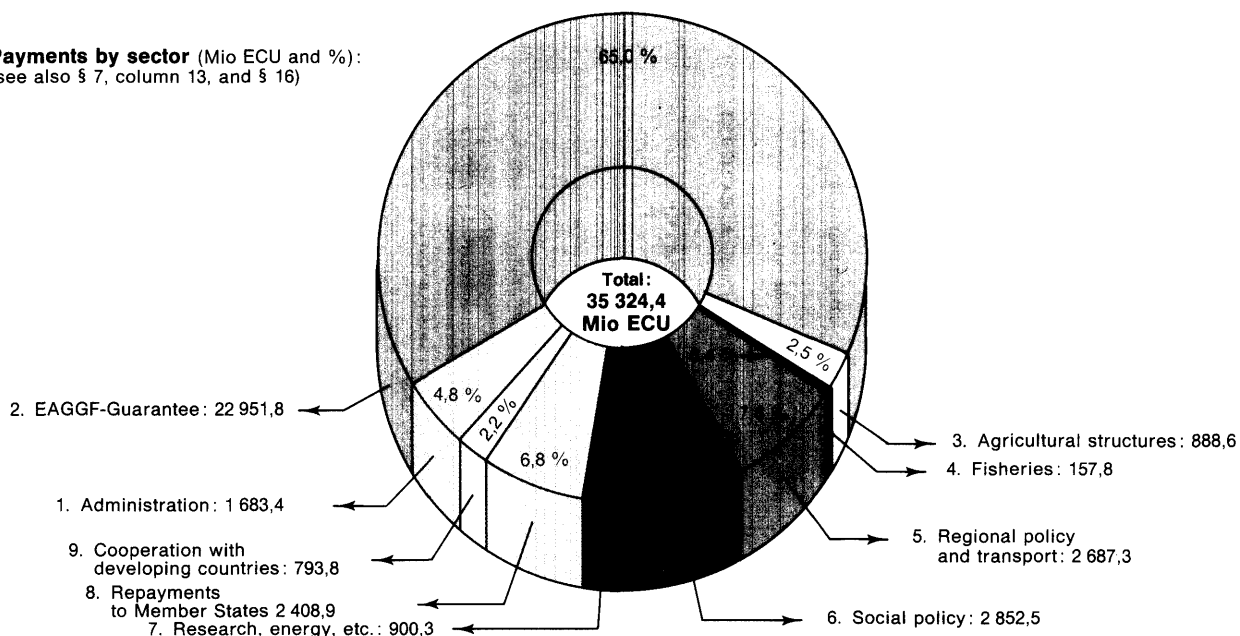


Note: The result for the financial year 1987, defined as (1) + (2) - (5) - (6), is +314,1 Mio ECU.

§ 11. Payments made in 1987, by sector and by recipient Member State

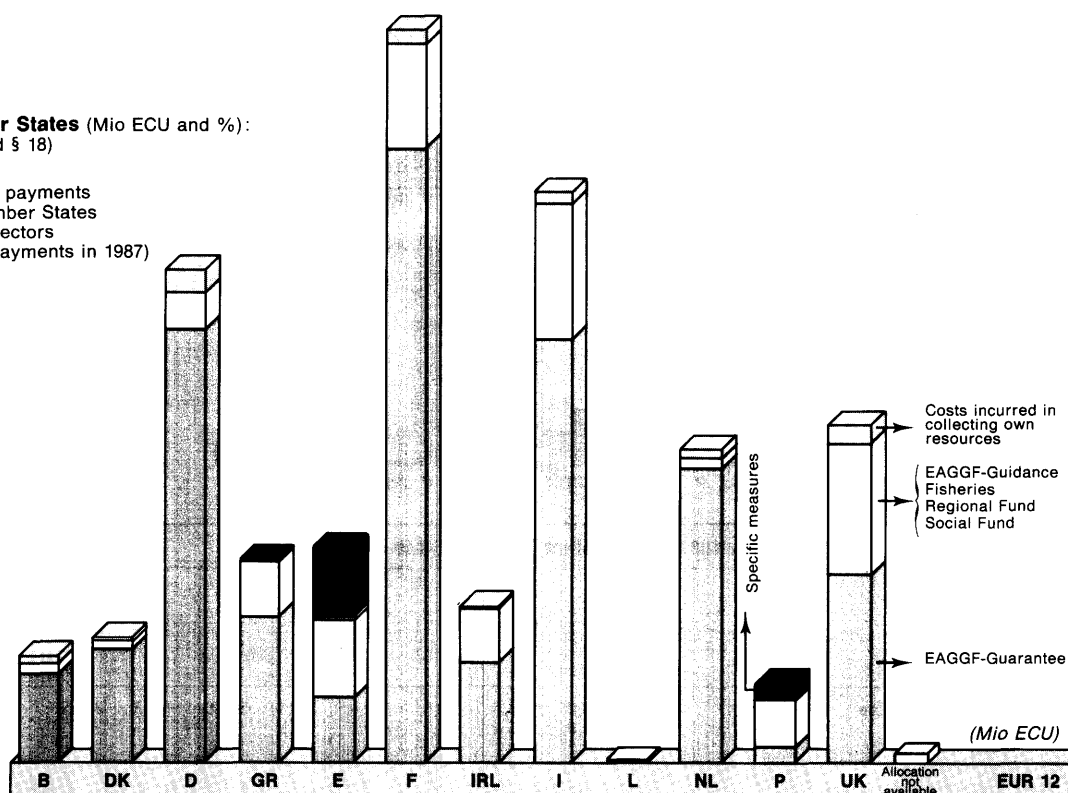
Note: Payments made in 1987 = payments against 1987 appropriations plus payments against carry-overs from 1986.

A. Payments by sector (Mio ECU and %): (see also § 7, column 13, and § 16)



B. Payments to Member States (Mio ECU and %): (see also § 12, § 13 and § 18)

Note: This table shows the payments made in 1987 to Member States under the principal sectors (87,2 % of the total payments in 1987)

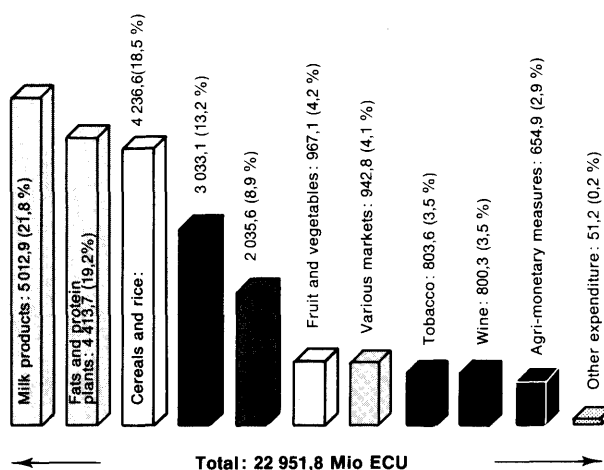


	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Allocation not available	EUR 12
- EAGGF-Guarantee (T1-2)(¹)	821,3	1 057,4	3 992,7	1 340,5	601,6	5 657,0	954,9	3 899,7	1,5	2 727,8	146,6	1 747,2	3,6	22 951,8
- EAGGF-Guidance (Ch 30-33)	18,7	15,7	128,3	78,0	21,2	237,2	87,0	146,3	4,5	17,1	28,3	80,9	—	863,2
- Fisheries (T 4)	2,9	4,9	4,3	3,5	5,6	15,8	5,7	13,0	—	4,8	4,6	11,6	81,1	157,8
- Regional Fund (Ch 50-51)	23,0	16,6	73,4	293,9	345,3	311,2	134,7	563,5	3,8	19,6	222,7	526,7	0,6	2 535,0
- Social Fund (Ch 60-61)	56,5	31,7	131,6	151,9	311,5	406,1	247,4	539,2	1,7	52,1	190,5	595,1	—	2 715,3
- Costs incurred in collecting own resources (Ch 80)	63,0	17,9	211,5	8,7	29,2	117,0	8,3	94,5	0,5	68,8	8,5	160,0	—	787,9
- Specific measures (Ch 86)	—	—	—	0,4	670,4	—	—	—	—	—	130,2	—	—	801,0
Total	985,4 (3,2%)	1 144,2 (3,7%)	4 541,8 (14,7%)	1 876,9 (6,1%)	1 984,8 (6,4%)	6 744,3 (21,9%)	1 438,0 (4,7%)	5 256,2 (17,1%)	12,0 (0,0%)	2 890,2 (9,4%)	731,4 (2,4%)	3 121,5 (10,1%)	85,3 (0,3%)	30 812,0 (100%)

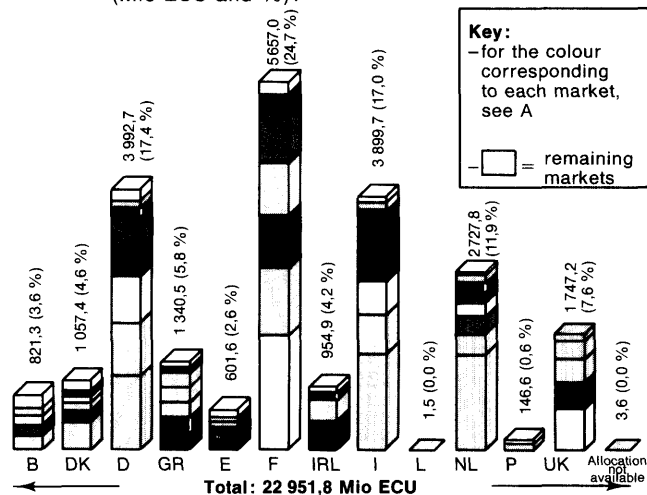
(¹) For the EAGGF-Guarantee these figures include adjusted monetary compensatory amounts (see § 12 D, footnote (¹)).

§ 12. EAGGF-Guarantee: payments made in 1987, by market and by recipient Member State

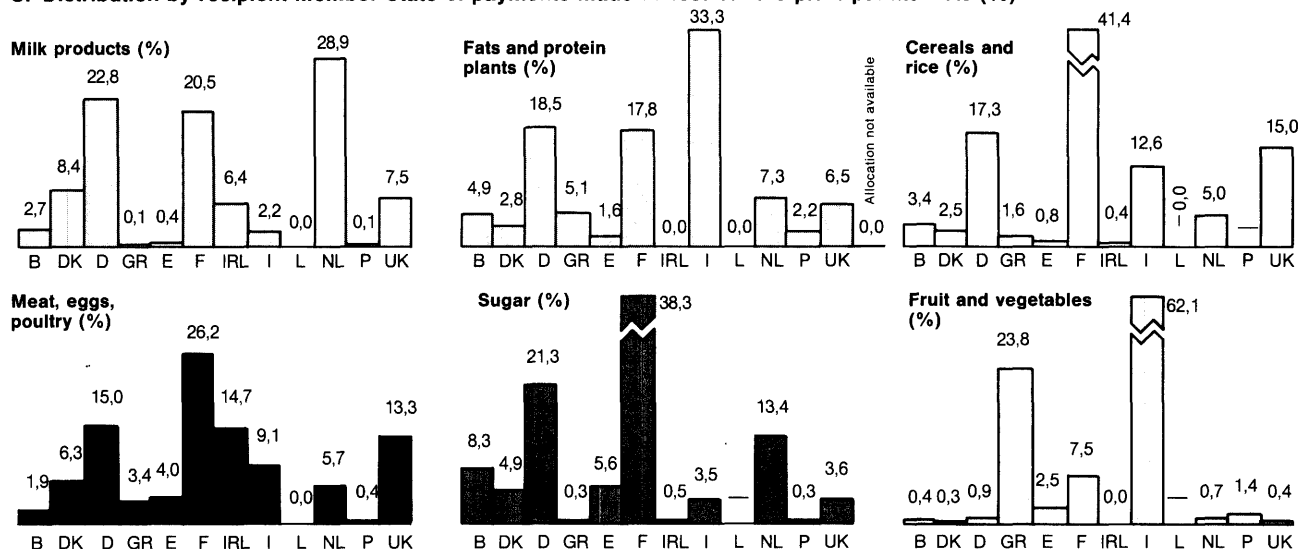
A. Payments made in 1987, by market (Mio ECU and %):



B. Payments made in 1987, by recipient Member State (Mio ECU and %):



C. Distribution by recipient Member State of payments made in 1987 for the principal markets (%):



D. Record of payments made in 1987, by recipient Member State and by market:

(Mio ECU)

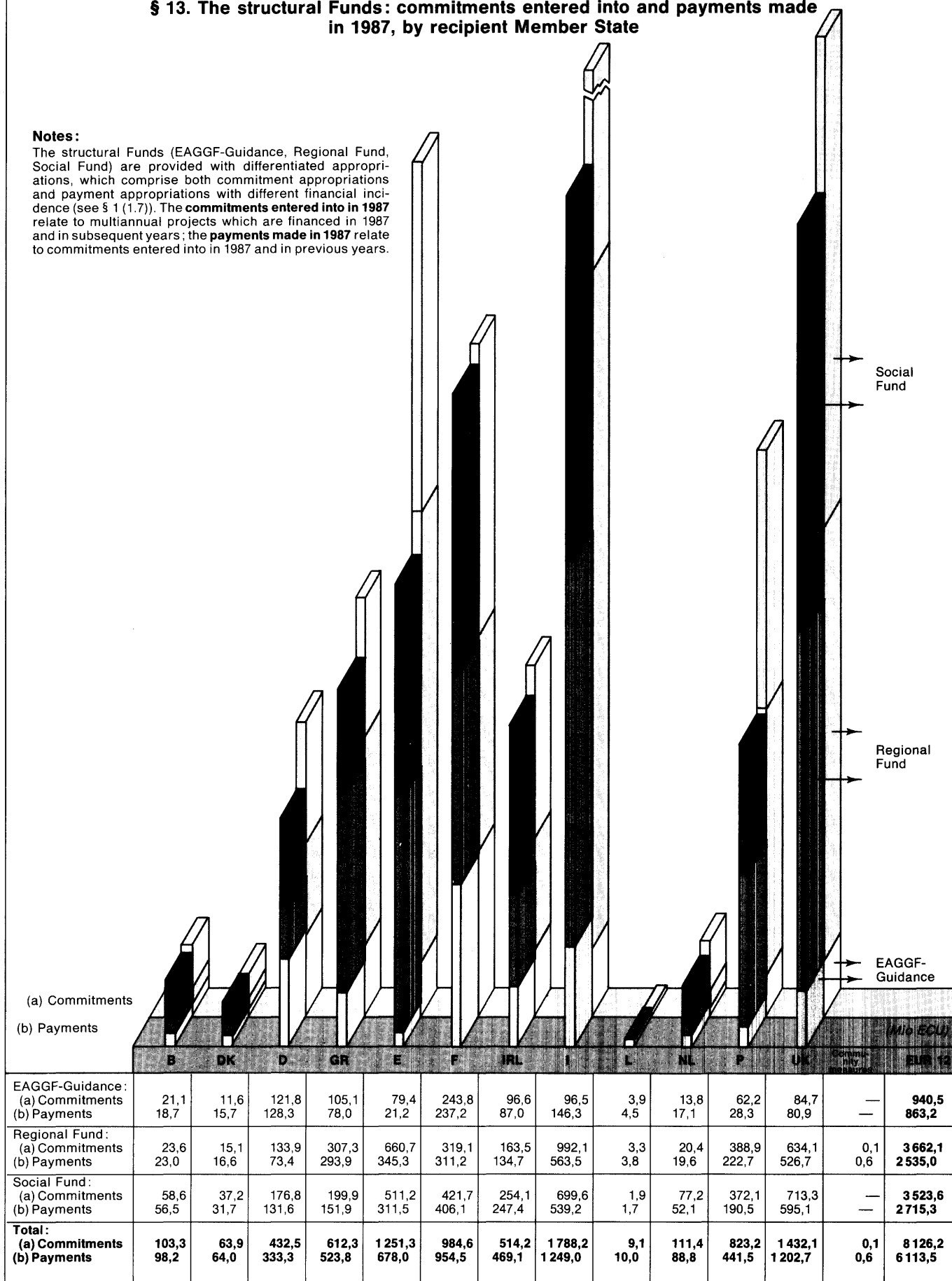
Market	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Allocation not available	EUR 12
2.1. Cereals and rice	144,4	105,7	733,0	68,5	34,6	1 752,4	15,1	533,0	-0,3	212,2	—	638,0	—	4 236,6
2.2. Sugar	169,5	100,3	433,9	5,4	113,7	778,5	11,0	71,8	—	272,1	6,1	73,3	—	2 035,6
2.3. Fats and protein plants	215,0	124,8	815,2	224,9	68,1	786,7	1,6	1 471,2	0,0	323,6	95,4	285,8	1,4	4 413,7
2.4. Fruit and vegetables	4,3	2,6	8,9	230,4	24,4	72,1	0,1	600,1	—	7,2	13,6	3,4	—	967,1
2.5. Wine	—	—	5,7	12,0	95,2	263,5	—	423,6	—	—	—	0,3	—	800,3
2.6. Tobacco	7,1	—	57,2	251,9	20,0	78,4	—	382,7	—	0,8	5,5	—	—	803,6
2.7. Milk products	136,1	419,0	1 143,0	2,5	19,3	1 028,0	321,7	112,8	0,8	1 451,0	2,4	376,3	—	5 012,9
2.8. Meat, eggs, poultry	56,7	190,8	454,4	103,0	123,1	794,7	445,8	275,5	0,0	173,1	10,9	405,1	—	3 033,1
2.9. Various markets	35,5	60,1	95,4	220,9	72,4	78,2	42,1	79,3	0,2	139,3	0,2	117,0	2,2	942,8
2.10. Agri-monetary measures (1)	23,9	70,2	143,8	230,7	25,4	-0,2	105,2	-9,2	0,0	156,0	12,5	-103,4	—	654,9
2.11. Other expenditure	28,8	-16,1	102,2	-9,7	5,4	24,7	12,3	-41,1	0,8	-7,5	—	-48,6	—	51,2
Total	821,3	1 057,4	3 992,7	1 340,5	601,6	5 657,0	954,9	3 899,7	1,5	2 727,8	146,6	1 747,2	3,6	22 951,8

(1) The agri-monetary measures include monetary compensatory amounts (MCAs) adjusted to cancel the effect of the application of Article 2 of Council Regulation (EEC) No 974/71, under which exporting Member States themselves pay directly the MCAs due on import into certain importing Member States. The MCA adjustment consists in allocating to these importing Member States the amounts which are chargeable to them.

§ 13. The structural Funds: commitments entered into and payments made in 1987, by recipient Member State

Notes:

The structural Funds (EAGGF-Guidance, Regional Fund, Social Fund) are provided with differentiated appropriations, which comprise both commitment appropriations and payment appropriations with different financial incidence (see § 1 (1.7)). The **commitments entered into in 1987** relate to multiannual projects which are financed in 1987 and in subsequent years; the **payments made in 1987** relate to commitments entered into in 1987 and in previous years.



§ 14. Evolution and utilization of the appropriations for payment for the period 1983-1987 – by sector

Note: For the rate of utilization relating to columns (4), (5), (6) and (8), (9), (10), see § 15.

(Mio ECU)

(%)

Sector / financial year (For the definition of sectors, see § 6)	A. Appropriations for payment for the financial year						B. Carry-overs from the previous financial year				C. Payment indicators	
	Evolution of appropriations			Utilization of appropriations			Final carry overs ⁽³⁾	Utilization of appropriations			Share of payments in the total effected (payments and cancellations) ⁽⁴⁾	Share of payments in 1st year ⁽⁵⁾
	Initial budget	Final budget ⁽¹⁾	Final appropriations ⁽²⁾	Pay- ments	Carry- overs to the follow- ing financial year	Cancellations		Pay- ments	Carry- overs to the follow- ing financial year	Cancellations		
	(1)	(2)	(3)	(4)	(5)	(6) = (3 – 4 – 5)		(8)	(9)	(10) = (7 – 8 – 9)		
							(7)				(11) = (4 + 8) (4 + 6 + 8 + 10)	(12) = (4) (4 + 8)
1. Administration (all institutions)	1983 1 153,4	1 161,6	1 162,9	1 019,2	100,5	43,2	106,7	91,2	—	15,5	95,0	* 91,8
	1984 1 229,1	1 236,6	1 245,6	1 127,2	96,4	22,0	100,6	88,9	—	11,7	97,3	* 92,7
	1985 1 332,5	1 332,5	1 336,0	1 210,3	104,1	21,6	96,4	85,7	—	10,7	97,6	* 93,4
	1986 1 604,4	1 604,4	1 611,0	1 427,5	123,7	59,8	104,1	94,5	—	9,6	95,6	* 93,8
	1987 1 757,8	1 757,8	1 759,9	1 577,0	142,0	40,9	123,6	106,4	—	17,2	96,7	* 93,7
2. EAGGF-Guarantee	1983 14 050,0	15 811,0	15 822,2	15 785,7	0,1	36,4	2,6	2,5	—	0,1	99,8	99,9
	1984 16 150,0	17 983,0	18 358,0	18 328,2	2,6	27,2	0,1	0,1	—	0,0	99,9	99,9
	1985 19 955,0	19 955,0	19 859,0	19 723,7	4,4	130,9	2,6	2,2	—	0,4	99,3	99,9
	1986 22 112,0	22 112,0	22 135,0	22 115,9	3,5	15,6	4,4	4,1	—	0,3	99,9	99,9
	1987 22 960,8	22 960,8	22 960,8	22 949,6	0,7	10,5	3,5	2,2	—	1,3	99,9	99,9
3. Agricultural structures	1983 651,2	653,4	668,5	513,7	131,5	23,3	397,3	236,0	—	161,3	** 80,2	*** 68,5
	1984 655,6	660,1	666,9	611,1	55,2	0,6	131,2	91,7	—	39,5	* 94,6	** 87,0
	1985 687,7	687,7	747,7	690,8	56,5	0,4	55,2	47,8	—	7,4	99,0	* 93,5
	1986 790,2	790,2	800,2	720,8	76,8	2,6	56,5	45,7	—	10,8	98,3	* 94,0
	1987 896,2	843,2	830,1	799,0	26,6	4,5	101,8	89,6	—	12,2	98,2	** 89,9
4. Fisheries	1983 70,1	70,1	45,7	31,9	12,5	1,3	30,4	22,9	—	7,5	** 86,2	*** 58,2
	1984 101,4	112,4	87,4	46,6	38,4	2,4	12,5	10,5	—	2,0	* 92,8	** 81,6
	1985 105,4	105,4	107,4	72,6	21,7	13,1	38,4	9,2	—	29,2	*** 65,9	** 88,8
	1986 164,1	164,1	151,1	108,3	42,4	0,4	21,7	7,5	—	14,2	** 88,8	* 93,5
	1987 197,3	177,4	174,0	124,6	38,9	10,5	42,4	33,2	—	9,2	** 88,9	*** 79,0
5. Regional policy and transport	1983 1 484,3	2 397,5	2 397,5	2 268,1	126,9	2,5	175,5	141,4	—	34,1	98,5	* 94,1
	1984 1 488,6	1 488,6	1 967,7	1 733,9	232,6	1,2	126,9	80,4	—	46,5	97,4	95,6
	1985 1 697,8	1 697,8	1 697,8	1 501,9	195,1	0,8	232,6	223,6	—	9,0	99,4	** 87,0
	1986 2 574,8	2 574,8	2 574,8	2 422,2	152,6	0,0	195,1	162,9	—	32,2	98,8	* 93,7
	1987 2 738,2	2 738,2	2 679,5	2 479,9	199,2	0,4	242,6	207,4	—	35,2	98,7	* 92,3
6. Social policy	1983 1 410,6	1 430,6	1 430,7	801,0	617,7	12,0	226,8	219,9	—	6,9	98,2	*** 78,5
	1984 1 369,3	1 369,4	1 638,1	1 509,4	125,9	2,8	617,7	526,9	—	90,8	95,6	** 74,1
	1985 1 625,3	1 625,3	1 626,2	1 373,1	247,1	6,0	125,9	117,6	—	8,3	99,0	* 92,1
	1986 2 651,6	2 651,6	2 652,5	2 303,2	349,3	0,0	247,1	116,0	—	131,1	* 94,9	95,2
	1987 2 686,1	2 686,1	2 724,8	2 615,4	107,5	1,9	259,3	237,1	—	22,2	99,2	* 91,7
7. Research, energy, etc.	1983 527,2	1 360,4	1 380,7	1 213,6	155,0	12,1	120,4	90,4	7,5	22,5	97,4	* 93,1
	1984 610,7	664,4	1 191,6	922,0	265,7	3,9	162,5	122,9	4,8	34,8	96,4	** 88,2
	1985 700,3	700,3	692,2	469,6	215,9	6,7	269,5	237,9	4,4	27,2	95,4	*** 66,4
	1986 740,7	740,7	760,1	651,6	108,5	0,0	220,2	186,8	4,0	29,4	96,6	*** 77,7
	1987 911,4	911,4	965,9	803,1	161,7	1,1	112,5	97,2	2,3	13,0	98,5	** 89,2
8. Repayments to Member States	1983 1 122,9	1 089,0	1 089,0	950,6	99,5	38,9	116,0	114,1	—	1,9	96,3	** 89,3
	1984 1 103,5	1 150,2	1 083,2	1 073,8	8,7	0,7	99,5	99,4	—	0,1	99,9	* 91,5
	1985 1 266,8	1 266,8	1 266,8	1 239,3	4,7	22,8	8,7	8,7	—	—	98,2	99,3
	1986 3 299,8	3 299,8	3 299,8	2 967,7	127,7	204,4	4,7	4,7	—	0,0	* 93,6	99,8
	1987 2 816,1	2 869,0	2 869,0	2 281,1	99,8	488,1	127,8	127,8	—	—	** 83,2	* 94,7
9. Cooperation with developing countries	1983 966,5	981,2	984,6	517,8	463,1	3,7	345,3	293,0	—	52,3	* 93,5	*** 63,9
	1984 893,1	893,1	1 032,2	767,0	264,6	0,6	445,6	383,6	—	62,0	* 94,8	*** 66,7
	1985 1 039,2	1 039,2	1 092,7	855,2	236,6	0,9	264,6	229,5	—	35,1	96,8	** 78,8
	1986 1 141,5	1 141,5	1 161,6	744,8	416,7	0,1	236,7	108,6	—	128,1	** 86,9	** 87,3
	1987 1 229,9	1 104,9	1 097,4	481,3	581,8	34,3	391,7	312,5	—	79,2	** 87,5	*** 60,6
10. Provisional appropriations and contingency reserve (Commission)	1983 122,3	106,3	87,0	—	—	87,0	—	—	—	—	—	—
	1984 1 760,2	1 690,8	—	—	—	—	—	—	—	—	—	—
	1985 23,2	23,2	11,3	—	—	11,3	—	—	—	—	—	—
	1986 95,0	95,0	31,1	—	—	31,1	—	—	—	—	—	—
	1987 119,6	119,6	109,2	—	—	109,2	—	—	—	—	—	—
General budget – total	1983 21 558,5	25 061,1	25 068,8	23 101,6	1 706,8	260,4	1 521,0	1 211,4	7,5	302,1	97,7	95,0
	1984 25 361,5	27 248,6	27 270,7	26 119,2	1 090,1	61,4	1 696,6	1 404,4	4,8	287,4	98,7	* 94,9
	1985 28 433,2	28 433,2	28 437,1	27 136,5	1 086,1	214,5	1 093,9	962,2	4,4	127,3	98,8	96,6
	1986 35 174,1	35 174,1	35 177,2	33 462,0	1 401,2	314,0	1 090,5	730,8	4,0	355,7	98,1	97,9
	1987 36 313,4	36 168,4	36 170,6	34 111,0	1 358,2	701,4	1 405,2	1 213,4	2,3	189,5	97,5	96,6

(1) After supplementary and amending budgets.

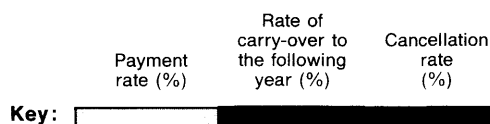
(2) After supplementary receipts and transfers between budget headings and 'transfers' from carry-overs from the previous financial year.

(3) After transfers between budget headings and 'transfers' to the appropriations for the current financial year.

(4) The indicator (11) expresses the evolution of the share of appropriations finally paid during the financial years. The difference in relation to 100 % expresses the share of appropriations finally cancelled. Indicators (11) less than 95 % are marked (*), those less than 90 % (**), and those less than 80 % (***).

(5) The indicator (12) expresses the evolution of payments made against the appropriations for the financial year as a proportion of the total payments effected during the financial year. The difference in relation to 100 % expresses the share of payments effected against carry-overs from the previous financial year. Indicators (12) less than 95 % are marked (*), those less than 90 % (**) and those less than 80 % (***).

§ 15. Utilization rates of the appropriations for payment from 1983 to 1987, by sector



A. Appropriations for the financial year

For basic figures, see § 14, columns 3-6
Final appropriations (col. 3) = 100 %

(%)

B. Carry-overs from the previous financial year

For basic figures, see § 14, columns 7-10
Appropriations carried over (col. 7) = 100 %

(%)

		A. Appropriations for the financial year		B. Carry-overs from the previous financial year	
		Final appropriations (col. 3) = 100 %	Rate of carry-over to the following year (%)	Appropriations carried over (col. 7) = 100 %	Rate of carry-over to the following year (%)
1. Administration (all institutions)	1983	87,6	3,8	85,5	14,5
	1984	90,5	1,8	88,4	11,6
	1985	90,6	1,6	88,9	11,1
	1986	88,6	3,7	90,8	9,2
	1987	89,6	2,3	86,1	13,9
2. EAGGF-Guarantee	1983	99,8	0,0 →	96,2	3,8
	1984	99,8	0,0 →	100	0,0
	1985	99,3	0,0 →	84,6	15,4
	1986	99,9	0,0 →	93,2	6,8
	1987	99,9	0,0 →	62,9	37,1
3. Agricultural structures	1983	76,8	3,5	59,4	40,6
	1984	91,6	0,1	69,9	30,1
	1985	92,4	0,0	86,6	13,4
	1986	90,1	0,3	80,9	19,1
	1987	96,3	3,2	88,0	12,0
4. Fisheries	1983	69,8	2,8	75,3	24,7
	1984	53,3	2,8	84,0	16,0
	1985	67,6	12,2	24,0	76,0
	1986	71,7	0,3	34,6	65,4
	1987	71,6	6,0	78,3	21,7
5. Regional policy and transport	1983	94,6	0,1	80,6	19,4
	1984	88,1	0,1	63,4	36,6
	1985	88,5	0,0	96,1	3,9
	1986	94,1	0,0	83,5	16,5
	1987	92,6	0,0	85,5	14,5
6. Social policy	1983	56,0	0,8	97,0	3,0
	1984	92,1	0,2	85,3	14,7
	1985	84,4	0,4	93,4	6,6
	1986	86,8	0,0	46,9	53,1
	1987	96,0	3,9	91,4	8,6
7. Research, energy, etc.	1983	87,9	0,9	75,1	6,2
	1984	77,4	0,3	75,6	3,0
	1985	67,8	1,0	88,3	1,6
	1986	85,7	0,0	84,8	1,8
	1987	83,1	0,1	86,4	2,0
8. Repayments to Member States	1983	87,3	3,6	98,4	1,6
	1984	99,1	0,8 →	99,9	0,1
	1985	97,8	0,4 →	100	—
	1986	89,9	3,9	100	0,0
	1987	79,5	3,5	100	—
9. Cooperation with developing countries	1983	52,6	0,4	84,9	15,1
	1984	74,3	0,1	86,1	13,9
	1985	78,3	0,1	86,7	13,3
	1986	64,1	0,0	45,9	54,1
	1987	43,9	3,1	79,8	20,2
General budget — total	1983	92,2	6,8	79,6	0,5 →
	1984	95,8	4,0	82,8	0,3 →
	1985	95,4	3,8	88,0	0,4 →
	1986	95,1	4,0	67,0	0,4 →
	1987	94,3	3,8	86,3	0,2 →

§ 16. Annual payments during the period 1983-1987 — by sector and by institution

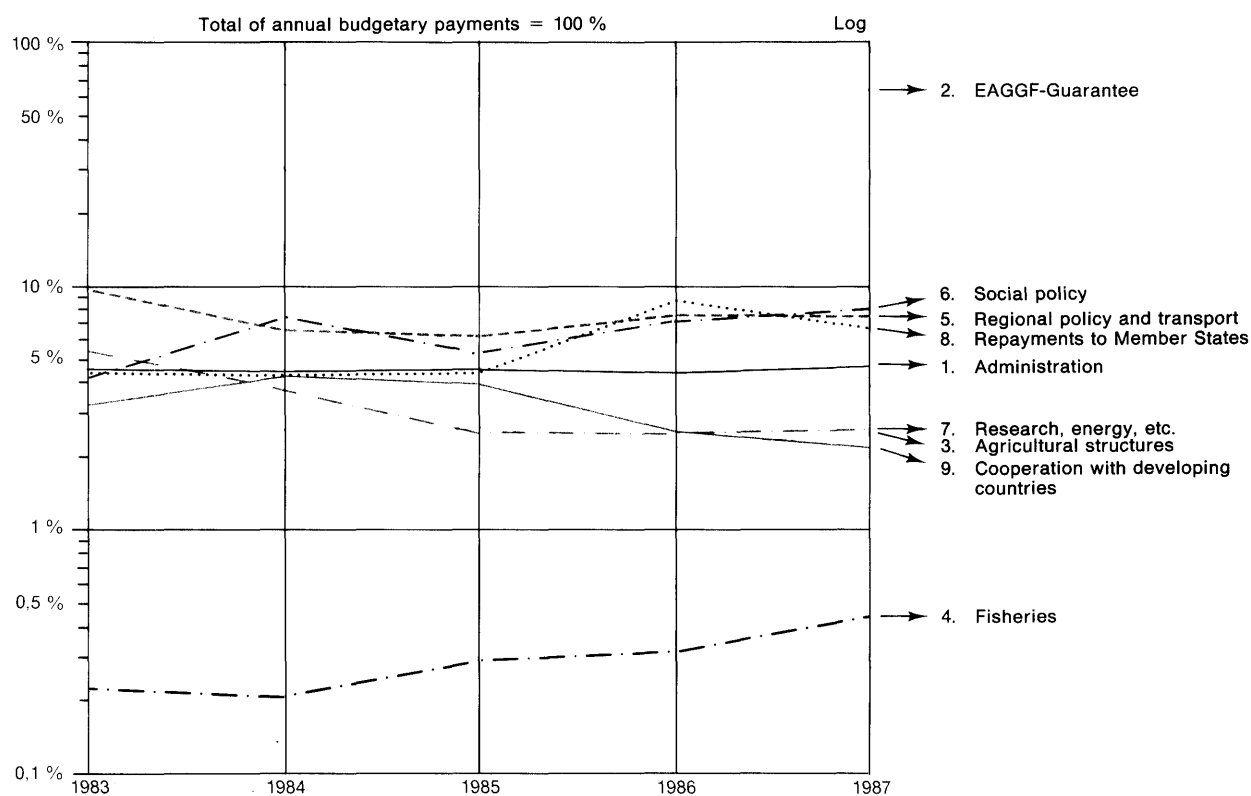
Note: Annual payments = payments against appropriations of the financial year plus payments against carry-overs from the previous financial year.

Sector and institution (For the definition of sectors, see § 6)		1983		1984		1985		1986		1987	
		Mio ECU	% (1)	Mio ECU	% (1)	Mio ECU	% (1)	Mio ECU	% (1)	Mio ECU	% (1)
1. Administration (all institutions)		1 110,4	4,6	1 216,1	4,4	1 296,0	4,6	1 522,0	4,4	1 683,4	4,8
1.1. Commission		736,3	3,0	798,4	2,9	869,5	3,1	998,6	2,9	1 098,5	3,1
1.2. Other institutions		374,1	1,6	417,7	1,5	426,5	1,5	523,4	1,5	584,9	1,7
Operating sectors (Commission)	2. EAGGF-Guarantee	15 788,2	64,9	18 328,3	66,6	19 725,9	70,2	22 120,0	64,7	22 951,8	65,0
	2.1. Cereals and rice	2 534,1	10,4	1 697,8	6,2	2 359,8	8,4	3 485,4	10,2	4 236,6	12,0
	2.2. Sugar	1 316,2	5,4	1 631,5	5,9	1 804,5	6,4	1 725,5	5,0	2 035,6	5,8
	2.3. Fats and protein plants	1 764,7	7,2	1 965,6	7,1	2 173,7	7,7	3 094,6	9,1	4 413,7	12,5
	2.4. Fruit and vegetables	1 196,1	4,9	1 454,6	5,3	1 230,7	4,4	986,0	2,9	967,1	2,7
	2.5. Wine	659,2	2,7	1 222,6	4,4	921,4	3,3	630,8	1,8	800,3	2,3
	2.6. Tobacco	671,3	2,8	776,4	2,8	862,9	3,1	782,2	2,3	803,6	2,3
	2.7. Milk products	4 396,1	18,1	5 441,7	19,8	5 933,2	21,1	5 405,8	15,8	5 013,0	14,2
	2.8. Meat, eggs and poultry	2 310,3	9,5	3 246,1	11,8	3 476,6	12,4	4 348,2	12,7	3 033,1	8,6
	2.9. Various markets	559,7	2,3	541,3	2,0	736,1	2,6	1 121,6	3,3	942,7	2,7
	2.10. Agri-monetary measures	488,6	2,0	376,2	1,4	189,8	0,7	481,7	1,4	654,9	1,8
	2.11. Other expenditure	-108,1	-0,4	-25,5	-0,1	37,2	0,1	58,2	0,2	51,2	0,1
	3. Agricultural structures	749,7	3,1	702,8	2,5	738,6	2,6	766,5	2,2	888,6	2,5
	3.1. EAGGF-Guidance	719,7	3,0	646,8	2,3	690,1	2,4	727,1	2,1	863,2	2,4
	3.2. Specific measures	30,0	0,1	56,0	0,2	48,5	0,2	39,4	0,1	25,4	0,1
	4. Fisheries	54,8	0,2	57,1	0,2	81,8	0,3	115,8	0,3	157,8	0,4
	4.1. Common organization of the market	25,8	0,1	15,7	0,0	16,1	0,1	18,0	0,0	17,4	0,0
	4.2. Other measures	29,0	0,1	41,4	0,2	65,7	0,2	97,8	0,3	140,4	0,4
	5. Regional policy and transport	2 409,5	9,9	1 814,3	6,6	1 725,5	6,2	2 585,1	7,6	2 687,3	7,6
	5.1. Regional Fund	1 255,9	5,2	1 350,6	4,9	1 624,2	5,8	2 483,8	7,3	2 535,0	7,1
	5.2. Transport	3,7	0,0	430,8	1,6	76,0	0,3	46,2	0,1	24,3	0,1
	5.3. Other measures	1 149,9	4,7	32,9	0,1	25,3	0,1	55,1	0,2	128,0	0,4
	6. Social policy	1 020,9	4,2	2 036,3	7,4	1 490,7	5,3	2 419,2	7,1	2 852,5	8,1
	6.1. Social Fund	890,9	3,7	1 606,3	5,8	1 413,0	5,0	2 321,3	6,8	2 715,3	7,7
	6.2. Other measures	130,0	0,5	430,0	1,6	77,7	0,3	97,9	0,3	137,2	0,4
	7. Research, energy, etc.	1 304,0	5,4	1 044,9	3,8	707,5	2,5	838,4	2,5	900,3	2,6
	7.1. Energy	828,0	3,4	545,7	1,9	126,2	0,4	80,6	0,2	89,7	0,3
	7.2. Research and investment	423,3	1,7	441,0	1,6	510,6	1,8	679,7	2,0	720,2	2,0
	7.3. Industry	41,0	0,2	43,9	0,2	49,8	0,2	50,9	0,2	63,8	0,2
	7.4. Other measures	11,7	0,1	14,3	0,1	20,9	0,1	27,2	0,1	26,6	0,1
	8. Repayments to Member States	1 064,7	4,4	1 173,2	4,3	1 248,0	4,4	2 972,4	8,7	2 408,9	6,8
	8.1. Costs incurred in collecting own resources	921,9	3,8	1 109,9	4,1	1 050,9	3,7	920,4	2,7	787,9	2,2
	8.2. Other repayments	142,8	0,6	63,3	0,2	197,1	0,7	2 052,0	6,0	1 621,0	4,6
	9. Cooperation with developing countries	810,8	3,3	1 150,6	4,2	1 084,7	3,9	853,4	2,5	793,8	2,2
	9.1. Food aid	388,7	1,6	709,2	2,6	543,8	2,0	412,1	1,2	305,2	0,9
	9.2. Financial aid	422,1	1,7	441,4	1,6	540,9	1,9	441,3	1,3	488,6	1,3
Total operating sectors		23 202,6	95,4	26 307,5	95,6	26 802,7	95,4	32 670,8	95,6	33 641,0	95,2
Grand total		24 313,0	100	27 523,6	100	28 098,7	100	34 192,8	100	35 324,4	100
Institutions	Parliament	214,8	0,9	245,5	0,9	228,5	0,8	287,3	0,8	322,3	0,9
	Council (of which: Economic and Social Committee)	116,7 (22,4)	0,5 (0,1)	126,7 (24,2)	0,4 (0,1)	148,4 (26,4)	0,5 (0,1)	177,4 (31,3)	0,5 (0,1)	194,2 (35,3)	0,5 (0,1)
	Commission	23 938,9	98,4	27 105,9	98,5	27 672,2	98,5	33 669,4	98,5	34 739,5	98,4
	Court of Justice	27,2	0,1	28,6	0,1	31,1	0,1	37,1	0,1	43,9	0,1
	Court of Auditors	15,4	0,1	16,9	0,1	18,5	0,1	21,6	0,1	24,5	0,1
Grand total		24 313,0	100	27 523,6	100	28 098,7	100	34 192,8	100	35 324,4	100

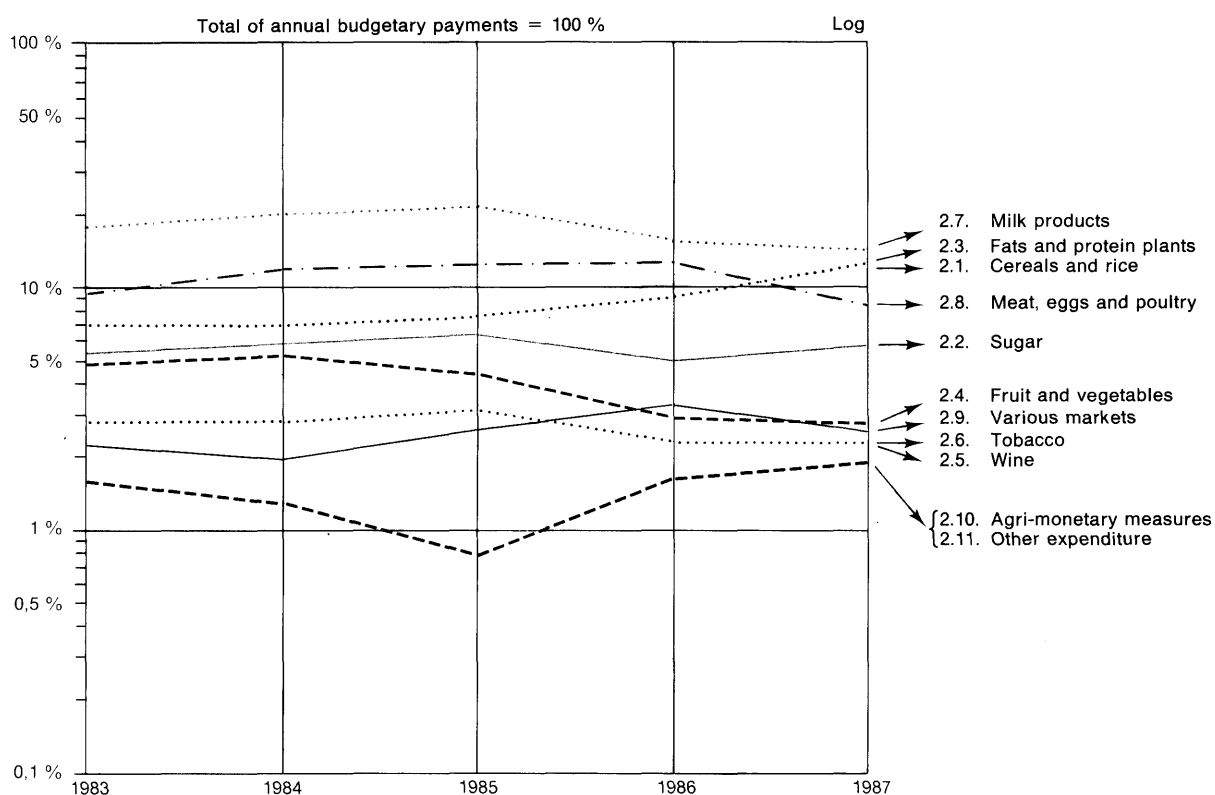
(1) Percentage in relation to the total of annual budgetary payments.

**§ 17. Evolution of the ratio of 'annual payments by sector'
to 'total of annual budgetary payments' (1983-1987)**
(for detailed figures see § 16)

A. General budget (all sectors):



B. EAGGF-Guarantee (all markets):



§ 18. Annual payments to the Member States (1983-1987)

Notes:

1. This table summarizes the annual payments to the Member States under the principal sectors. For the period under consideration these payments represent 88,1 % of total budgetary payments (= the aggregate of the totals in § 16).
2. Annual payments = payments against appropriations for the financial year plus payments against carry-overs from the previous year.
3. Payments under the EAGGF-Guarantee include adjusted monetary compensatory amounts (see § 12 D, footnote (1)).

(Mio ECU)

Financial year/sector	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Allocation not available	EUR 10/12
1983:														
EAGGF-Guarantee (T 1 - 2)	611,9	680,7	3 075,8	1 007,4	—	3 566,6	619,4	2 820,5	4,2	1 707,8	—	1 691,0	2,9	15 788,2
EAGGF-Guidance (Ch 30 - 33)	18,1	20,5	107,7	21,9	—	182,0	84,1	103,0	0,6	32,2	—	149,6	—	719,7
Fisheries (T4)	0,2	3,6	2,8	0,1	—	3,9	21,6	5,1	—	6,4	—	8,4	2,7	54,8
Regional Fund (Ch 50 - 51)	7,0	16,7	45,0	214,6	—	219,3	94,5	344,5	0,0	18,1	—	296,2	—	1 255,9
Social Fund (Ch 60 - 62)	20,6	14,7	81,5	20,4	—	140,5	134,2	221,2	0,3	12,6	—	244,9	—	890,9
Costs incurred in collecting own resources (Ch 80)	77,7	20,3	241,8	16,6	—	142,5	11,6	105,9	0,5	83,4	—	221,6	—	921,9
Specific measures (Ch 52, 53, 82, 86; Article 707)	—	—	270,7	70,4	—	—	60,8	174,8	—	—	—	1 471,9	—	2 048,6
Total	735,5 (3,4 %)	756,5 (3,5 %)	3 825,3 (17,7 %)	1 351,4 (6,2 %)	—	4 254,8 (19,6 %)	1 026,2 (4,7 %)	3 775,0 (17,4 %)	5,6 (0,0 %)	1 860,5 (8,6 %)	—	4 083,6 (18,9 %)	5,6 (0,0 %)	21 680,0 (100 %)

1984:														
EAGGF-Guarantee (T 1 - 2)	686,4	879,6	3 323,0	961,2	—	3 592,0	884,4	3 909,4	3,6	1 964,2	—	2 121,3	3,2	18 328,3
EAGGF-Guidance (Ch 30 - 33)	12,9	13,9	89,3	52,8	—	143,9	64,2	127,8	3,9	24,8	—	113,3	—	646,8
Fisheries (T4)	0,7	3,8	5,1	0,6	—	9,5	10,3	4,1	—	3,6	—	9,5	9,9	57,1
Regional Fund (Ch 50 - 51)	6,0	28,1	43,9	216,7	—	201,7	104,1	435,1	2,5	14,8	—	297,7	—	1 350,6
Social Fund (Ch 60 - 61)	52,1	68,7	63,8	71,3	—	225,7	131,4	368,5	0,5	14,1	—	610,2	—	1 606,3
Costs incurred in collecting own resources (Ch 80)	82,0	26,0	302,5	14,8	—	169,7	16,0	117,5	0,7	101,1	—	279,6	—	1 109,9
Specific measures (Ch 82, 86; Articles 707, 783)	—	—	191,7	46,6	—	—	—	—	—	—	—	660,9	—	899,2
Total	840,1 (3,5 %)	1 020,1 (4,2 %)	4 019,3 (16,7 %)	1 364,0 (5,7 %)	—	4 342,5 (18,1 %)	1 210,4 (5,0 %)	4 962,4 (20,7 %)	11,2 (0,1 %)	2 122,6 (8,8 %)	—	4 092,5 (17,1 %)	13,1 (0,1 %)	23 998,2 (100 %)

1985:														
EAGGF-Guarantee (T 1 - 2)	916,3	829,3	3 625,6	1 192,6	—	4 633,3	1 166,8	3 410,9	4,8	2 047,4	—	1 894,7	4,2	19 725,9
EAGGF-Guidance (Ch 30 - 33)	12,4	13,0	81,0	83,7	—	122,3	73,1	175,3	1,8	18,1	—	109,4	—	690,1
Fisheries (T4)	3,1	2,9	2,3	1,7	—	12,1	3,2	6,0	—	2,3	—	12,5	35,7	81,8
Regional Fund (Ch 50 - 51)	12,3	7,7	61,7	309,0	—	233,2	118,2	381,1	0,7	16,4	—	483,9	—	1 624,2
Social Fund (Ch 60 - 61)	49,4	33,5	109,8	79,0	—	255,6	171,6	383,5	0,6	46,0	—	284,0	—	1 413,0
Costs incurred in collecting own resources (Ch 80)	76,5	26,1	284,5	12,2	—	159,9	15,8	123,5	0,6	101,7	—	250,1	—	1 050,9
Specific measures (Ch 82, 86; Articles 583, 707)	—	—	20,1	24,6	—	—	—	—	—	—	—	72,8	—	117,5
Total	1 070,0 (4,3 %)	912,5 (3,7 %)	4 185,0 (17,0 %)	1 702,8 (6,9 %)	—	5 416,4 (21,9 %)	1 548,7 (6,3 %)	4 480,3 (18,1 %)	8,5 (0,0 %)	2 231,9 (9,0 %)	—	3 107,4 (12,6 %)	39,9 (0,2 %)	24 703,4 (100 %)

1986:														
EAGGF-Guarantee (T 1 - 2)	978,4	1 063,2	4 400,6	1 386,9	271,4	5 440,3	1 212,9	3 067,8	2,1	2 276,5	30,4	1 983,0	6,5	22 120,0
EAGGF-Guidance (Ch 30 - 34)	15,5	13,9	105,1	86,2	—	176,7	64,2	167,0	2,3	17,1	—	79,1	—	727,1
Fisheries (T4)	4,5	11,3	6,1	3,4	0,0	19,7	2,6	6,9	—	2,9	0,4	21,7	36,3	115,8
Regional Fund (Ch 50 - 51)	29,5	18,9	92,5	309,1	314,3	219,0	79,3	712,1	0,1	13,1	188,8	506,7	0,4	2 483,8
Social Fund (Ch 60 - 61)	72,9	80,7	134,6	107,1	174,9	328,4	203,1	462,2	1,4	50,6	109,2	596,2	—	2 321,3
Costs incurred in collecting own resources (Ch 80)	63,4	23,8	249,5	10,4	19,0	139,5	11,8	107,3	0,6	89,3	5,7	200,1	—	920,4
Specific measures (Ch 86)	—	—	—	2,0	1 635,9	—	—	—	—	—	163,3	—	—	1 801,2
Total	1 164,2 (3,8 %)	1 211,8 (4,0 %)	4 988,4 (16,4 %)	1 905,1 (6,3 %)	2 415,5 (7,9 %)	6 323,6 (20,7 %)	1 573,9 (5,2 %)	4 523,3 (14,8 %)	6,5 (0,0 %)	2 449,5 (8,0 %)	497,8 (1,6 %)	3 386,8 (11,1 %)	43,2 (0,2 %)	30 489,6 (100 %)

1987:														
EAGGF-Guarantee (T 1 - 2)	821,3	1 057,4	3 992,7	1 340,5	601,6	5 657,0	954,9	3 899,7	1,5	2 727,8	146,6	1 747,2	3,6	22 951,8
EAGGF-Guidance (Ch 30 - 33)	18,7	15,7	128,3	78,0	21,2	237,2	87,0	146,3	4,5	17,1	28,3	80,9	—	863,2
Fisheries (T4)	2,9	4,9	4,3	3,5	5,6	15,8	5,7	13,0	—	4,8	4,6	11,6	81,1	157,8
Regional Fund (Ch 50 - 51)	23,0	16,6	73,4	293,9	345,3	311,2	134,7	563,5	3,8	19,6	222,7	526,7	0,6	2 535,0
Social Fund (Ch 60 - 61)	56,5	31,7	131,6	151,9	311,5	406,1	247,4	539,2	1,7	52,1	190,5	595,1	—	2 715,3
Costs incurred in collecting own resources (Ch 80)	63,0	17,9	211,5	8,7	29,2	117,0	8,3	94,5	0,5	68,8	8,5	160,0	—	787,9
Specific measures (Ch 86)	—	—	—	0,4	670,4	—	—	—	—	—	130,2	—	—	801,0
Total	985,4 (3,2 %)	1 144,2 (3,7 %)	4 541,8 (14,7 %)	1 876,9 (6,1 %)	1 984,8 (6,4 %)	6 744,3 (21,9 %)	1 438,0 (4,7 %)	5 256,2 (17,1 %)	12,0 (0,0 %)	2 890,2 (9,4 %)	731,4 (2,4 %)	3 121,5 (10,1 %)	85,3 (0,3 %)	30 812,0 (100 %)

§ 19. Actual own resources — by Member State (1983-1987)

Notes:

1. Actual own resources = own resources recovered during the financial year.
2. It should be noted that the Member States, acting on behalf of the Communities, are responsible for the collection of the amounts due in respect of customs duties, agricultural levies and sugar and isoglucose levies.

(Mio ECU)

Financial year/Type of resource	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 10/12
1983:													
Agricultural levies	293,9	6,9	143,0	38,0	—	78,9	7,0	323,2	0,1	135,8	—	320,3	1 347,1
Sugar and isoglucose levies	65,8	38,9	270,5	16,7	—	293,7	11,6	95,0	—	82,2	—	73,6	948,0
Customs duties	423,8	159,8	2 019,8	107,4	—	1 051,8	100,4	657,1	4,6	633,2	—	1 830,8	6 988,7
VAT own resources ⁽¹⁾ ⁽²⁾	432,4	274,3	4 038,8	215,6	—	3 082,1	150,6	1 923,4	39,2	713,7	—	2 859,7	13 729,8
Total	1 215,9 (5,3 %)	479,9 (2,1 %)	6 472,1 (28,1 %)	377,7 (1,6 %)	—	4 506,5 (19,6 %)	269,6 (1,2 %)	2 998,7 (13,0 %)	43,9 (0,2 %)	1 564,9 (6,8 %)	—	5 084,4 (22,1 %)	23 013,6 (100 %)
1984:													
Agricultural levies	211,0	8,0	158,6	19,5	—	94,2	6,9	288,5	0,1	131,8	—	341,4	1 260,0
Sugar and isoglucose levies	83,9	38,0	350,2	16,6	—	406,3	16,8	84,1	—	76,9	—	103,6	1 176,4
Customs duties	470,0	197,3	2 309,7	99,4	—	1 100,0	126,7	750,9	5,9	740,8	—	2 160,1	7 960,8
VAT own resources ⁽¹⁾ ⁽²⁾	473,4	289,6	4 233,9	220,3	—	3 201,8	135,9	2 319,9	45,3	738,3	—	2 824,4	14 482,8
Total	1 238,3 (5,0 %)	532,9 (2,1 %)	7 052,4 (28,4 %)	355,8 (1,4 %)	—	4 802,3 (19,3 %)	286,3 (1,2 %)	3 443,4 (13,8 %)	51,3 (0,2 %)	1 687,8 (6,8 %)	—	5 429,5 (21,8 %)	24 880,0 (100 %)
1985:													
Agricultural levies	197,2	9,7	142,0	18,1	—	74,1	5,9	314,4	0,2	131,7	—	228,4	1 121,7
Sugar and isoglucose levies	78,4	43,5	286,3	12,0	—	348,0	15,0	75,8	—	104,1	—	94,3	1 057,4
Customs duties	489,3	208,2	2 414,5	95,9	—	1 174,7	137,2	820,1	6,0	781,5	—	2 182,7	8 310,1
VAT own resources ⁽¹⁾ ⁽²⁾	527,7	359,0	4 661,5	262,0	—	3 722,4	138,3	2 419,2	44,5	872,1	—	2 584,9	15 591,6
Total	1 292,6 (5,0 %)	620,4 (2,4 %)	7 504,3 (28,8 %)	388,0 (1,5 %)	—	5 319,2 (20,4 %)	296,4 (1,1 %)	3 629,5 (13,9 %)	50,7 (0,2 %)	1 889,4 (7,2 %)	—	5 090,3 (19,5 %)	26 080,8 (100 %)
1986:													
Agricultural levies	132,2	9,8	111,9	22,9	10,1	107,6	6,4	356,4	0,2	114,1	18,7	285,2	1 175,5
Sugar and isoglucose levies	84,7	47,6	313,0	16,9	14,5	378,6	10,8	73,0	—	95,9	—	76,5	1 111,5
Customs duties	494,6	220,5	2 436,1	85,5	191,9	1 150,4	113,3	770,1	6,4	792,0	49,8	1 862,3	8 172,9
VAT own resources ⁽¹⁾ ⁽³⁾	736,6	512,8	5 869,2	507,1	2 104,1	5 248,5	213,3	3 518,7	59,2	1 230,0	210,1	2 601,2	22 810,8
Total	1 448,1 (4,4 %)	790,7 (2,4 %)	8 730,2 (26,2 %)	632,4 (1,9 %)	2 320,6 (7,0 %)	6 885,1 (20,7 %)	343,8 (1,0 %)	4 718,2 (14,2 %)	65,8 (0,2 %)	2 232,0 (6,7 %)	278,6 (0,8 %)	4 825,2 (14,5 %)	33 270,7 (100 %)
1987:													
Agricultural levies	284,8	15,4	155,3	19,1	77,5	108,3	5,8	411,3	0,2	96,8	41,5	410,1	1 626,1
Sugar and isoglucose levies	106,2	59,0	394,0	12,5	53,4	452,6	12,0	166,6	—	125,8	0,2	89,4	1 471,7
Customs duties	529,0	194,0	2 617,8	92,3	382,7	1 212,6	112,0	875,7	7,3	817,6	93,9	2 001,6	8 936,5
VAT own resources ⁽¹⁾ ⁽³⁾	782,6	576,3	6 217,5	216,5	1 195,1	5 556,5	207,7	3 738,0	66,0	1 326,0	206,2	3 226,4	23 314,8
Total	1 702,6 (4,8 %)	844,7 (2,4 %)	9 384,6 (26,5 %)	340,4 (1,0 %)	1 708,7 (4,8 %)	7 330,0 (20,7 %)	337,5 (1,0 %)	5 191,6 (14,7 %)	73,5 (0,2 %)	2 366,2 (6,7 %)	341,8 (1,0 %)	5 727,5 (16,2 %)	35 349,1 (100 %)

⁽¹⁾ Including the balances and adjustments of previous financial years.

⁽²⁾ Greece paid a financial contribution based on its GNP.

⁽³⁾ Portugal paid a financial contribution based on its GNP.

Part II: The European Development Funds (EDFs) (position at 31 December 1987)

§ 20. General information on the EDFs

THE FIRST FOUR EDFs

20.1 General information and detailed financial information on the first three EDFs, has most recently been given in the annual report of the Court of Auditors on the financial year 1980. Information concerning the 4th EDF has been given in the annual report on the financial year 1986. Only a few small amounts still remain to be paid under the 4th EDF. A summary of the payments made under the first four EDFs is given in § 28.

THE 5th AND 6th EDFs

20.2. Legal provisions

- a) Legal basis in respect of ACP States:
 - 5th EDF: second ACP-EEC Convention signed in Lomé on 31 October 1979 (Lomé II),
 - 6th EDF: third ACP-EEC Convention signed in Lomé on 8 December 1984 (Lomé III).
- b) Legal basis in respect of the OCT:
 - 5th EDF: Council Decision 80/1186/EEC of 16 December 1980,
 - 6th EDF: Council Decision 86/283/EEC of 30 June 1986.
- c) Establishment of the EDFs:
 - 5th EDF: internal agreement of 20 November 1979,
 - 6th EDF: internal agreement of 19 February 1985.
- d) Financial Regulations:
 - 5th EDF: Financial Regulation 81/215/EEC of 17 March 1981,
 - 6th EDF: Financial Regulation 86/548/EEC of 11 November 1986.

20.3. Allocations, financing, distribution and type of aid

The EDF allocations after changes ⁽¹⁾ by the Council are as follows:

- 5th EDF: 4 929,7 Mio ECU,
- 6th EDF: 7 511,7 Mio ECU.

The EDFs are financed by the EC Member States in proportions laid down in the internal agreements (see also § 21). The above-mentioned internal agreements provide for distribution of the allocations of the EDFs between the ACP States and the OCT and between grants, special loans, risk capital, Stabex ⁽²⁾ and Sysmin ⁽³⁾.

Part of the allocation in the form of grants is reserved for exceptional aid and for interest subsidies on loans granted by the European Investment Bank. The rest of the allocation in the form of grants and the allocation in the form of special loans are distributed among the recipient countries, with the exception of funds for the regional projects, administrative costs and a contingency reserve. The amounts thus allocated to the recipient countries, called indicative programmes in the case of the ACP States, are used to finance the projects adopted.

20.4. Monetary unit

The EDF amounts are given in ECU; for conversion into ECU of the monetary units previously applied, it has been agreed that 1 u.a. = 1 EUA = 1 ECU.

20.5. Date of entry into force

- 5th EDF: 1 January 1981.
- 6th EDF: 1 May 1986.

20.6. Financial implementation

The Commission draws up a timetable of requests for contributions, which in principle are to be paid quarterly by the Member States of the European Communities. The use of the EDF resources is shown in the accounts in three stages: (I) financing decision, (II) signing of contracts against funds allocated to national authorizing officers, (III) authorization of payments to contractors.

20.7. External audit

The Court of Auditors is responsible for the audit of the EDFs (in accordance with the Treaty).

20.8. Authority giving discharge

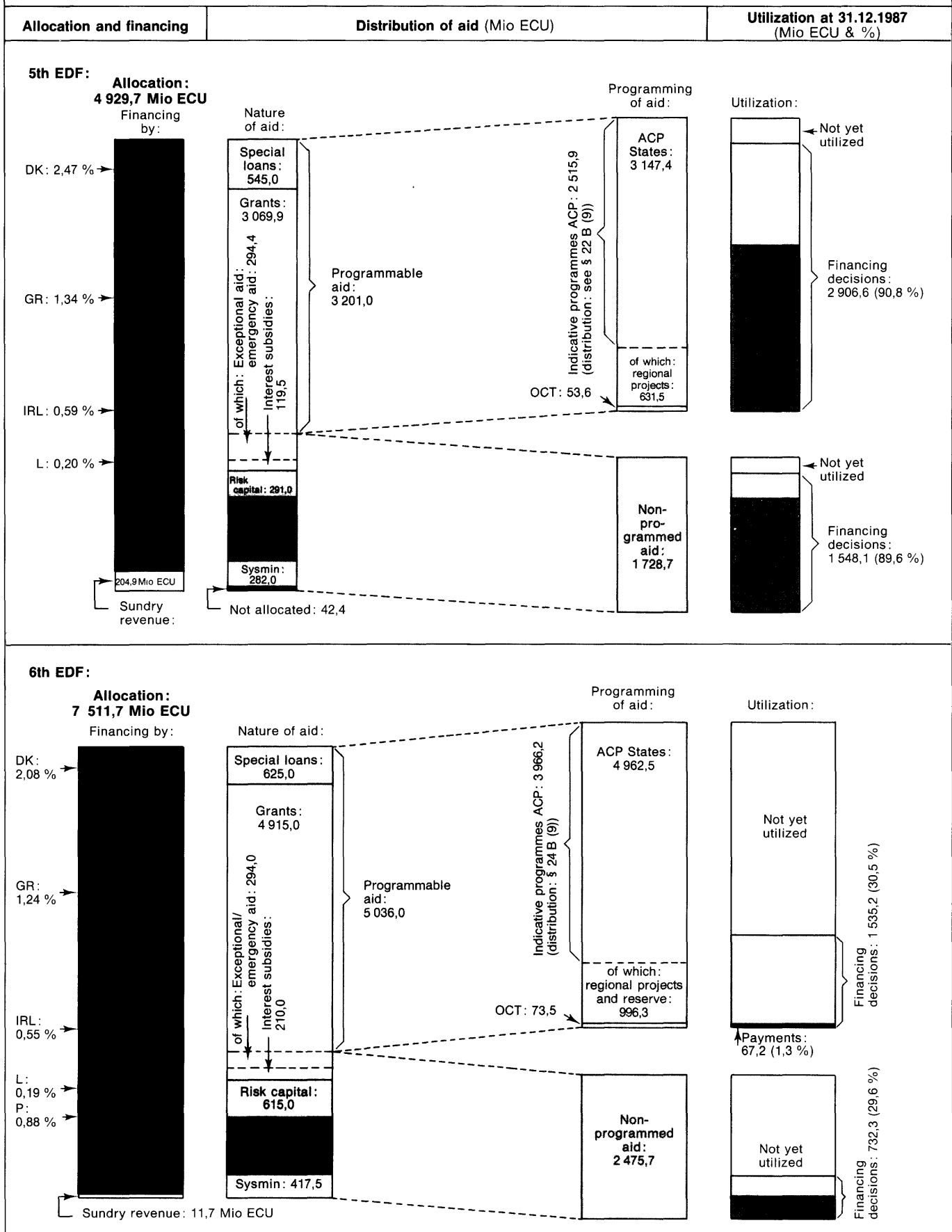
The European Parliament gives discharge of the financial management of the EDFs, on the recommendation of the Council (in accordance with internal agreements).

⁽¹⁾ The initial allocations were altered by Council Decisions, and are increased by various receipts such as reconstitution of Stabex transfers and bank interest.

⁽²⁾ System designed to guarantee the stabilization of earnings from exports by the ACP States to the Community (Lomé I, Article 16; Lomé II, Article 23; Lomé III, Article 147).

⁽³⁾ System designed to aid ACP States whose economies are largely dependent on the mining sectors and in particular towards helping them cope with a decline in their capacity to export mining products to the Community (Lomé II, Article 49; Lomé III, Article 176).

§ 21. The 5th and 6th EDFs: allocation, financing, distribution of aid, overall utilization



§ 22. The 5th EDF: aid by type and by recipient country
(financial implementation: situation at 31 December 1987)

(Mio ECU)

Recipient country	A. Non-programmed aid							B. Programmable aid (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions						Payments made	Allocations	Financing decisions			Payments made	Financing decisions (7) + (12)	Payments made (8) + (13)
	Interest subsidies (grants)	Risk capital	Exceptional/emergency aid	Stabex	Sysmin	Total (2) + ... + (6)			Grants	Special loans	Total (10) + (11)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
I. ACP States including:	111,0	248,1	221,3	659,1	219,1	1 458,6	1 239,3	2 515,9	1 932,1	400,5	2 332,6	1 433,8	3 791,2	2 673,1
Ethiopia	—	13,0	51,7	11,3	—	76,0	61,3	141,0	109,6	31,0	140,6	114,0	216,6	175,3
Tanzania	—	9,7	0,5	20,9	—	31,1	31,0	120,7	108,9	11,6	120,5	78,4	151,6	109,4
Zaire	—	18,2	4,9	—	81,0	104,1	56,5	104,0	72,4	26,7	99,1	62,0	203,2	118,5
Sudan	—	10,2	38,6	40,7	—	89,5	80,9	103,0	88,1	—	88,1	75,8	177,6	156,7
Uganda	—	10,0	5,3	—	—	15,3	15,2	87,0	83,9	—	83,9	47,5	99,2	62,7
Mali	—	3,4	15,2	10,7	—	29,3	25,2	96,0	66,3	17,8	84,1	48,3	113,4	73,5
Kenya	8,6	1,4	2,4	44,9	—	57,3	55,4	88,0	56,3	26,3	82,6	45,4	139,9	100,8
Madagascar	—	21,2	5,2	10,0	—	36,4	30,8	78,0	62,9	9,8	72,7	47,3	109,1	78,1
Niger	3,6	—	16,5	—	—	20,1	15,9	80,5	71,9	8,0	79,9	54,0	100,0	69,9
Burkina Faso	—	7,0	0,5	1,0	—	8,5	6,6	84,5	71,7	7,0	78,7	58,5	87,2	65,1
Malawi	1,2	15,0	0,4	4,9	—	21,5	18,5	80,0	61,7	11,8	73,5	36,3	95,0	54,8
Guinea	1,1	2,7	1,1	—	—	4,9	4,4	80,0	67,9	12,0	79,9	46,6	84,8	51,0
Somalia	—	9,6	18,6	3,6	—	31,8	29,5	79,3	70,6	—	70,6	32,7	102,4	62,2
Senegal	5,6	4,2	2,1	90,6	—	102,5	100,7	69,0	38,3	20,1	58,4	39,4	160,9	140,1
Rwanda	—	0,7	2,0	9,3	2,8	14,8	11,5	79,0	61,6	15,4	77,0	61,0	91,8	72,5
Burundi	—	6,2	0,2	13,8	—	20,2	19,9	77,0	59,9	11,7	71,6	31,2	91,8	51,1
Cameroon	20,9	—	1,6	29,6	—	52,1	49,0	69,0	29,7	17,9	47,6	33,7	99,7	82,7
Chad	—	2,0	14,8	6,6	—	23,4	17,5	62,0	60,3	—	60,3	43,9	83,7	61,4
Ghana	—	13,6	3,8	85,5	—	102,9	95,8	60,0	53,0	7,0	60,0	27,0	162,9	122,8
Zambia	8,5	1,8	1,3	—	83,0	94,6	86,9	58,0	37,8	19,8	57,6	15,5	152,2	102,4
Benin	—	4,5	1,5	4,6	—	10,6	6,1	55,0	39,2	6,4	45,6	24,1	56,2	30,2
Côte d'Ivoire	9,8	—	0,8	93,4	—	104,0	98,0	54,0	29,2	22,3	51,5	30,3	155,5	128,3
Central African Republic	—	5,1	0,6	5,2	—	10,9	10,9	49,0	43,2	4,7	47,9	36,5	58,8	47,4
Togo	1,5	—	0,6	28,8	—	30,9	30,9	43,0	31,7	6,9	38,6	31,5	69,5	62,4
Mauritania	—	7,0	7,7	—	—	14,7	8,8	43,0	32,3	8,7	41,0	28,1	55,7	36,9
Sierra Leone	—	—	0,2	14,3	—	14,5	14,5	48,5	36,8	8,4	45,2	14,8	59,7	29,3
Congo	5,3	0,5	—	—	—	5,8	5,8	31,5	19,1	12,0	31,1	29,2	36,9	35,0
Liberia	0,5	2,8	—	—	49,3	52,6	1,8	31,0	23,8	4,7	28,5	13,1	81,1	14,9
Lesotho	—	6,0	0,1	1,3	—	7,4	4,1	29,0	20,2	8,8	29,0	18,9	36,4	23,0
Guinea-Bissau	—	3,8	—	3,6	—	7,4	6,6	25,0	21,7	—	21,7	16,2	29,1	22,8
Jamaica	0,7	5,0	0,1	4,3	—	10,1	10,1	26,4	16,9	9,0	25,9	10,5	36,0	20,6
Botswana	6,3	—	3,2	—	—	9,5	6,7	23,0	17,2	5,8	23,0	10,7	32,5	17,4
Suriname	—	4,2	3,5	—	—	7,7	2,1	18,0	8,4	2,7	11,1	2,3	18,8	4,4
Mauritius	0,7	0,5	0,1	—	—	1,3	0,6	20,5	12,8	7,7	20,5	13,4	21,8	14,0
Guyana	—	4,0	—	—	3,0	7,0	5,6	14,6	14,5	—	14,5	11,5	21,5	17,1
Swaziland	2,1	0,0	0,1	8,2	—	10,4	10,4	18,5	13,7	4,7	18,4	9,7	28,8	20,1
Gambia	—	—	0,1	18,2	—	18,3	18,2	14,0	11,9	—	11,9	7,6	30,2	25,8
Papua New Guinea	1,4	13,8	—	50,7	—	65,9	63,7	23,0	12,3	8,2	20,5	8,4	86,4	72,1
Fiji	6,8	6,3	4,7	2,9	—	20,7	19,2	13,0	11,3	—	11,3	8,1	32,0	27,3
Gabon	7,2	2,5	—	—	—	9,7	9,0	16,0	8,0	5,1	13,1	12,2	22,8	21,2
Solomon Islands	—	0,2	—	4,2	—	4,4	4,3	12,0	11,6	—	11,6	4,4	16,0	8,7
Nigeria	5,1	—	—	—	—	5,1	3,8	50,0	33,7	—	33,7	8,7	38,8	12,5
Zimbabwe	6,7	5,4	5,0	—	—	17,1	15,3	49,0	29,6	19,0	48,6	17,4	65,7	32,7
Other ACP States:														
Antigua and Barbuda	—	—	0,1	—	—	0,1	0,1	2,7	1,7	1,0	2,7	0,0	2,8	0,1
Bahamas	—	—	—	—	—	—	—	2,1	2,0	—	2,0	1,1	2,0	1,1
Barbados	1,9	—	—	—	—	1,9	1,7	3,7	3,7	—	3,7	2,0	5,6	3,7
Belize	0,3	0,6	—	—	—	0,9	0,9	5,5	0,4	—	0,4	0,1	1,3	1,0
Cape Verde	—	1,8	2,2	0,5	—	4,5	4,1	16,0	15,9	—	15,9	11,5	20,4	15,6
Comoros	—	0,2	0,4	6,6	—	7,2	7,2	14,5	12,9	—	12,9	7,2	20,1	14,4
Djibouti	—	2,2	0,3	—	—	2,5	2,5	5,4	5,5	—	5,5	3,5	8,0	6,0
Dominica	—	1,0	0,5	3,5	—	5,0	5,0	3,5	3,4	—	3,4	2,9	8,4	7,9
Grenada	—	2,2	—	4,0	—	6,2	6,1	3,5	3,4	—	3,4	2,8	9,6	8,9
Equatorial Guinea	—	2,0	—	—	—	2,0	0,6	8,5	8,3	—	8,3	5,8	10,3	6,4
Kiribati	—	0,2	—	1,6	—	1,8	1,8	4,0	4,0	—	4,0	0,9	5,8	2,7
Sao Tome and Principe	—	0,0	0,4	7,6	—	8,0	8,0	4,0	4,0	—	4,0	3,5	12,0	11,5
Saint Christopher and Nevis	—	—	—	—	—	—	—	2,2	1,7	0,5	2,2	1,3	2,2	1,3
Saint Lucia	—	1,0	0,2	1,6	—	2,8	2,8	3,7	3,7	—	3,7	3,1	6,5	5,9
Saint Vincent and Grenadines	—	3,0	0,2	—	—	3,2	2,3	3,7	3,4	—	3,4	3,0	6,6	5,3
Western Samoa	—	3,3	0,1	6,5	—	9,9	9,9	6,2	6,3	—	6,3	6,2	16,2	16,1
Seychelles	—	4,0	0,3	—	—	4,3	3,6	3,6	3,6	—	3,6	3,0	7,9	6,6
Tonga	—	2,3	1,4	4,0	—	7,7	7,7	4,1	3,0	—	3,0	2,6	10,7	10,3
Trinidad and Tobago	5,2	—	—	—	—	5,2	4,9	10,5	7,8	—	7,8	2,7	13,0	7,6
Tuvalu	—	0,1	—	0,1	—	0,2	0,2	1,0	1,1	—	1,1	0,9	1,3	1,1
Vanuatu	—	2,7	0,2	—	—	2,9	0,9	4,5	4,4	—	4,4	3,6	7,3	4,5
(Total other countries)	(7,4)	(26,6)	(6,3)	(36,0)	(—)	(76,3)	(70,3)	(112,9)	(100,2)	(1,5)	(101,7)	(67,7)	(178,0)	(138,0)
II. Regional projects	1,3	25,9	41,4	—	—	68,6	15,3	631,5	460,8	77,8	538,6	341,2	607,2	356,5
Administrative costs	—	—	—	—	—	—	—	—	7,5	—	7,5	6,9	7,5	6,9
Total ACP (I + II)	112,3	274,0	262,7	659,1	219,1	1 527,2	1 254,6	3 147,4	2 400,4	478,3	2 878,7	1 781,9	4 405,9	3 036,5
III. OCT	4,5	5,7	0,9	9,8	—	20,9	18,9	53,6	21,9	6,0	27,9	16,4	48,8	35,3
Total 5th EDF	116,8	279,7	263,6	668,9	219,1	1 548,1	1 273,5	3 201,0	2 422,3	484,3	2 906,6	1 798,3	4 454,7	3 071,8

§ 23. The 5th EDF: aid by economic sector and by recipient country
(situation at 31 December 1987)

(Mio ECU)

Recipient country	Financing decisions											Total payments
	Miscellaneous	Industrialization, energy and mining	Rural production	Transport and communications	Education and training	Health	Hydraulics and urban development	Trade promotion, tourism	Exceptional aid	Stabex transfers	Total (2) + ... + (11)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
I. ACP States including:	24,0	795,5	943,3	605,1	216,3	89,9	251,1	35,4	211,0	619,6	3 791,2	2 673,1
Ethiopia	—	55,6	30,2	5,8	5,4	1,5	55,3	—	51,7	11,1	216,6	175,3
Tanzania	—	16,6	51,5	36,4	1,3	4,0	20,0	0,6	0,5	20,7	151,6	109,4
Zaire	0,4	109,7	17,9	47,8	14,1	1,6	8,3	0,6	2,8	—	203,2	118,5
Sudan	0,1	12,4	66,3	18,8	3,0	—	—	0,1	38,6	38,3	177,6	156,7
Uganda	1,2	19,0	33,4	26,3	4,5	3,5	6,0	0,0	5,3	—	99,2	62,7
Mali	3,2	20,7	33,3	9,6	7,0	2,6	10,8	0,4	15,2	10,6	113,4	73,5
Kenya	0,7	7,5	35,6	32,0	9,1	2,2	9,0	1,1	2,4	40,3	139,9	100,8
Madagascar	—	33,9	28,3	21,1	4,2	5,5	4,4	0,4	2,1	9,2	109,1	78,1
Niger	0,1	3,7	28,1	27,1	1,8	4,5	9,7	8,5	16,5	—	100,0	69,9
Burkina Faso	0,8	17,3	24,6	17,0	5,1	1,3	19,6	—	0,5	1,0	87,2	65,1
Malawi	0,7	18,3	26,8	31,3	5,1	3,8	0,9	2,9	0,4	4,8	95,0	54,8
Guinea	0,3	31,9	24,8	0,1	5,8	9,6	11,2	—	1,1	—	84,8	51,0
Somalia	2,0	10,1	21,0	28,6	8,8	4,0	5,3	0,7	18,5	3,4	102,4	62,2
Senegal	1,0	9,2	36,2	6,0	5,2	5,8	7,1	3,5	2,1	84,8	160,9	140,1
Rwanda	0,5	8,3	29,4	23,2	9,2	0,6	9,3	0,1	2,0	9,2	91,8	72,5
Burundi	—	19,5	37,7	10,1	10,3	—	0,1	0,1	0,2	13,8	91,8	51,1
Cameroon	0,5	14,4	30,3	22,6	0,4	0,1	3,0	1,0	1,6	25,8	99,7	82,7
Chad	1,0	2,0	28,4	11,9	8,2	10,8	1,3	—	13,5	6,6	83,7	61,4
Ghana	0,3	18,2	35,0	24,9	2,3	—	—	0,1	3,8	78,3	162,9	122,8
Zambia	—	117,1	21,4	0,1	3,7	2,0	5,8	0,8	1,3	—	152,2	102,4
Benin	1,6	8,6	9,8	19,1	2,9	0,2	4,6	3,5	1,5	4,4	56,2	30,2
Côte d'Ivoire	—	6,4	47,8	—	0,1	—	12,0	2,7	0,8	85,7	155,5	128,3
Central African Republic	0,5	5,3	21,2	20,2	3,4	2,6	0,2	—	0,5	4,9	58,8	47,4
Togo	1,6	0,4	10,9	19,6	4,0	—	3,3	0,4	0,5	28,8	69,5	62,4
Mauritania	—	8,5	26,9	7,0	2,5	2,8	0,2	0,1	7,7	—	55,7	36,9
Sierra Leone	—	2,7	17,8	13,4	7,1	1,5	2,8	0,1	0,2	14,1	59,7	29,3
Congo	0,4	5,2	0,0	27,3	1,4	—	2,5	0,1	—	—	36,9	35,0
Liberia	0,3	53,3	10,3	9,8	2,2	2,5	2,7	—	—	—	81,1	14,9
Lesotho	0,2	13,8	1,2	14,3	4,6	0,2	—	0,8	0,1	1,2	36,4	23,0
Guinea-Bissau	1,7	—	10,5	7,3	0,6	1,9	1,4	2,1	—	3,6	29,1	22,8
Jamaica	0,1	9,7	11,5	—	5,3	5,0	—	—	0,1	4,3	36,0	20,6
Botswana	0,4	10,7	10,1	1,3	3,5	—	2,1	1,2	3,2	—	32,5	17,4
Suriname	0,0	4,2	8,5	6,1	—	—	—	0,0	—	—	18,8	4,4
Mauritius	—	6,3	5,5	5,5	1,1	3,2	—	0,1	0,1	—	21,8	14,0
Guyana	—	11,5	5,8	0,9	1,3	—	2,0	0,0	—	—	21,5	17,1
Swaziland	1,6	2,1	4,9	—	9,0	—	2,6	0,3	0,1	8,2	28,8	20,1
Gambia	0,3	0,7	2,1	3,4	2,4	—	3,7	0,1	0,0	17,5	30,2	25,8
Papua New Guinea	—	16,2	1,6	17,7	3,3	—	—	0,8	—	46,8	86,4	72,1
Fiji	—	11,3	4,7	5,8	2,1	—	—	0,5	4,7	2,9	32,0	27,3
Gabon	—	13,0	9,1	0,0	0,6	—	—	0,1	—	—	22,8	21,2
Solomon Islands	0,5	0,1	2,7	0,9	1,8	—	5,8	—	—	4,2	16,0	8,7
Nigeria	—	6,5	12,8	—	19,5	—	0,0	—	—	—	38,8	12,5
Zimbabwe	0,1	10,2	30,6	2,7	10,3	—	6,4	0,4	5,0	—	65,7	32,7
Other ACP States:												
Antigua and Barbuda	—	—	1,9	0,8	—	—	—	—	0,1	—	2,8	0,1
Bahamas	0,5	—	1,1	—	0,2	0,2	—	—	—	—	2,0	1,1
Barbados	—	0,9	2,8	1,0	0,3	—	—	0,6	—	—	5,6	3,7
Belize	—	0,9	—	—	0,1	0,3	—	—	—	—	1,3	1,0
Cape Verde	0,9	3,8	1,9	6,3	0,9	—	3,9	—	2,2	0,5	20,4	15,6
Comoros	0,2	0,5	5,9	1,2	0,7	—	4,2	0,4	0,4	6,6	20,1	14,4
Djibouti	—	2,3	2,4	—	0,4	0,8	1,8	—	0,3	—	8,0	6,0
Dominica	—	1,0	0,9	2,4	0,2	—	—	0,0	0,5	3,4	8,4	7,9
Grenada	0,1	2,3	0,3	2,0	0,9	—	—	0,1	—	3,9	9,6	8,9
Equatorial Guinea	0,2	4,9	2,5	1,3	1,3	—	0,1	—	—	—	10,3	6,4
Kiribati	—	—	3,1	0,7	0,4	—	—	—	—	1,6	5,8	2,7
Sao Tome and Principe	—	0,0	2,7	1,0	0,0	—	0,5	—	0,4	7,4	12,0	11,5
Saint Christopher and Nevis	—	0,6	—	—	0,8	—	0,8	—	—	—	2,2	1,3
Saint Lucia	—	1,0	2,1	1,3	0,3	—	—	0,0	0,2	1,6	6,5	5,9
Saint Vincent and Grenadines	—	2,9	0,1	0,1	0,3	2,9	—	0,1	0,2	—	6,6	5,3
Western Samoa	—	9,5	0,1	0,3	0,1	—	—	—	0,2	6,0	16,2	16,1
Seychelles	—	4,1	0,7	—	0,4	2,4	—	0,0	0,3	—	7,9	6,6
Tonga	—	2,0	—	3,3	—	—	—	—	1,4	4,0	10,7	10,3
Trinidad and Tobago	—	3,5	4,2	—	5,3	—	—	—	—	—	13,0	7,6
Tuvalu	—	0,5	0,2	0,1	—	—	0,4	—	—	0,1	1,3	1,1
Vanuatu	—	2,7	3,9	0,3	0,2	—	—	—	0,2	—	7,3	4,5
(Total other countries)	(1,9)	(43,4)	(36,8)	(22,1)	(12,8)	(6,6)	(11,7)	(1,2)	(6,4)	(35,1)	(178,0)	(138,0)
II. Regional projects and administrative costs	32,7	101,8	135,8	195,5	60,2	8,2	0,5	38,1	41,9	—	614,7	363,4
Total ACP (I + II)	56,7	897,3	1 079,1	800,6	276,5	98,1	251,6	73,5	252,9	619,6	4 405,9	3 036,5
III. OCT	0,5	17,5	4,9	4,4	3,2	—	4,7	2,9	0,9	9,8	48,8	35,3
Total 5th EDF	57,2	914,8	1 084,0	805,0	279,7	98,1	256,3	76,4	253,8	629,4	4 454,7	3 071,8

(1) The differences compared with § 22, column 4 may be explained by the different analysis of projects for some countries.

(2) The differences compared with § 22, column 5 may be explained by the different analysis of Stabex projects for some countries.

§ 24. The 6th EDF: aid by type and by recipient country
(financial implementation: situation at 31 December 1987)

(Mio ECU)

Recipient country	A. Non-programmed aid							B. Programmable aid (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions						Payments made	Allocations	Financing decisions			Payments made	Financing decisions (7) + (12)	Payments made (8) + (13)
	Interest subsidies (grants)	Risk capital	Exceptional/emergency aid	Stabex	Sysmin	Total (2) + ... + (6)			Grants	Special loans	Total (10) + (11)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
I. ACP States including:	39,1	249,1	44,8	367,4	—	700,4	400,6	3 966,2	1 231,9	136,7	1 368,6	46,1	2 069,0	446,7
Ethiopia	—	21,0	8,5	34,4	—	63,9	37,6	230,0	29,4	2,0	31,4	0,1	95,3	37,7
Tanzania	—	18,0	—	8,9	—	26,9	8,9	169,0	103,6	—	103,6	1,9	130,5	10,8
Zaire	7,8	—	—	—	—	7,8	—	147,0	72,9	23,5	96,4	0,6	104,2	0,6
Sudan	—	9,0	1,1	60,1	—	70,2	63,4	145,0	29,1	—	29,1	1,2	99,3	64,6
Uganda	—	—	5,7	—	—	5,7	0,8	125,0	58,5	—	58,5	11,2	64,2	12,0
Mali	—	—	0,8	14,2	—	15,0	14,7	136,0	20,8	2,5	23,3	0,1	38,3	14,8
Kenya	0,9	5,5	—	—	—	6,4	—	122,0	25,4	10,0	35,4	0,1	41,8	0,1
Madagascar	—	24,1	0,3	—	—	24,4	2,9	110,0	37,0	10,0	47,0	0,5	71,4	3,4
Niger	—	14,3	1,1	5,9	—	21,3	6,3	120,0	36,6	—	36,6	0,0	57,9	6,3
Burkina Faso	—	—	0,4	—	—	0,4	0,3	115,0	1,6	—	1,6	—	2,0	0,3
Malawi	1,1	4,0	2,1	2,4	—	9,6	5,0	114,0	64,8	10,0	74,8	8,3	84,4	13,3
Guinea	—	—	—	—	—	—	—	114,0	72,7	—	72,7	0,0	72,7	0,0
Somalia	—	13,0	1,1	—	—	14,1	0,4	113,0	2,3	—	2,3	0,1	16,4	0,5
Senegal	—	25,5	0,9	82,1	—	108,5	85,4	97,0	87,0	10,0	97,0	0,0	205,5	85,4
Rwanda	—	—	—	3,4	—	3,4	3,4	111,0	51,2	—	51,2	—	54,6	3,4
Burundi	—	3,0	0,2	—	—	3,2	—	108,0	37,5	—	37,5	0,0	40,7	0,0
Cameroon	—	—	0,2	—	—	0,2	0,1	96,0	27,8	—	27,8	0,2	28,0	0,3
Chad	—	2,2	3,2	12,8	—	18,2	14,4	89,0	47,9	—	47,9	0,0	66,1	14,4
Ghana	3,2	7,0	—	—	—	10,2	—	86,0	26,0	—	26,0	0,1	36,2	0,1
Zambia	—	10,5	1,3	—	—	11,8	0,2	81,0	23,4	15,0	38,4	0,1	50,2	0,3
Benin	—	6,5	0,5	3,5	—	10,5	3,7	80,0	28,8	—	28,8	0,0	39,3	3,7
Côte d'Ivoire	6,8	—	0,2	13,5	—	20,5	15,8	75,0	0,6	20,8	21,4	3,2	41,9	19,0
Central African Republic	—	—	—	1,7	—	1,7	1,7	70,0	36,1	—	36,1	0,0	37,8	1,7
Togo	—	—	—	9,3	—	9,3	9,3	61,0	2,9	—	2,9	0,0	12,2	9,3
Mauritania	—	15,0	0,3	—	—	15,3	0,5	61,0	15,7	—	15,7	0,0	31,0	0,5
Sierra Leone	—	7,0	0,1	—	—	7,1	0,1	69,0	17,5	2,5	20,0	—	27,1	0,1
Congo	—	10,0	—	—	—	10,0	—	44,0	0,1	—	0,1	0,0	10,1	0,0
Liberia	—	—	—	—	—	—	—	44,0	22,4	5,0	27,4	—	27,4	—
Lesotho	—	3,5	—	—	—	3,5	0,6	41,0	8,9	9,5	18,4	1,8	21,9	2,4
Guinea-Bissau	—	—	0,1	0,4	—	0,5	0,5	35,0	26,8	—	26,8	0,4	27,3	0,9
Jamaica	2,2	—	0,6	—	—	2,8	0,4	39,0	7,6	7,1	14,7	0,6	17,5	1,0
Botswana	1,7	5,0	0,9	—	—	7,6	0,3	32,0	6,2	—	6,2	—	13,8	0,3
Suriname	—	—	0,3	—	—	0,3	—	23,0	0,0	—	0,0	—	0,3	—
Mauritius	2,1	6,5	—	2,9	—	11,5	4,4	29,0	8,4	5,0	13,4	0,2	24,9	4,6
Guyana	—	—	0,0	—	—	0,0	0,0	20,5	2,1	—	2,1	0,0	2,1	0,0
Swaziland	—	3,0	0,7	—	—	3,7	—	26,0	10,0	—	10,0	0,5	13,7	0,5
Gambia	—	—	0,2	9,4	—	9,6	9,6	20,0	5,6	—	5,6	0,5	15,2	10,1
Papua New Guinea	3,1	3,5	—	46,4	—	53,0	46,4	32,5	3,3	—	3,3	—	56,3	46,4
Fiji	0,5	1,0	0,3	0,3	—	2,1	0,6	19,0	0,0	—	0,0	—	2,1	0,6
Gabon	—	—	—	—	—	—	—	23,0	13,2	3,8	17,0	1,3	17,0	1,3
Solomon Islands	—	—	0,5	19,0	—	19,5	19,4	17,5	6,4	—	6,4	0,3	25,9	19,7
Nigeria	3,7	—	1,1	—	—	4,8	1,0	200,0	0,1	—	0,1	0,0	4,9	1,0
Zimbabwe	3,4	—	—	—	—	3,4	—	73,0	15,2	—	15,2	0,4	18,6	0,4
Angola	—	4,0	3,2	—	—	7,2	—	95,0	36,5	—	36,5	0,2	43,7	0,2
Mozambique	—	3,0	5,9	8,9	—	17,8	13,0	145,0	79,5	—	79,5	9,1	97,3	22,1
Other ACP States:														
Antigua and Barbuda	—	—	—	—	—	—	—	4,0	—	—	—	—	—	—
Bahamas	1,8	—	—	—	—	1,8	—	3,0	0,1	—	0,1	0,0	1,9	0,0
Barbados	—	—	—	—	—	—	—	5,0	0,3	—	0,3	—	0,3	—
Belize	0,3	1,0	—	—	—	1,3	—	8,0	0,5	—	0,5	0,1	1,8	0,1
Cape Verde	—	—	—	—	—	—	—	23,0	0,7	—	0,7	—	0,7	—
Comoros	—	2,0	—	5,0	—	7,0	5,5	21,0	0,1	—	0,1	—	7,1	5,5
Djibouti	—	—	0,5	—	—	0,5	0,1	8,0	0,9	—	0,9	—	1,4	0,1
Dominica	—	3,8	—	—	—	3,8	—	5,5	4,9	—	4,9	1,8	8,7	1,8
Grenada	—	1,8	—	0,4	—	2,2	0,4	5,0	3,7	—	3,7	0,5	5,9	0,9
Equatorial Guinea	—	4,0	—	1,1	—	5,1	1,1	12,0	0,0	—	0,0	—	5,1	1,1
Kiribati	—	—	1,6	—	—	1,6	1,6	6,0	0,5	—	0,5	—	2,1	1,6
Sao Tome and Principe	—	2,1	0,2	1,6	—	3,9	1,1	6,0	4,2	—	4,2	0,4	8,1	1,5
Saint Christopher and Nevis	—	1,5	—	—	—	1,5	0,4	3,0	0,0	—	0,0	—	1,5	0,4
Saint Lucia	0,5	2,0	—	—	—	2,5	—	5,5	1,5	—	1,5	—	4,0	—
Saint Vincent and Grenadines	—	1,8	0,1	—	—	1,9	0,0	5,5	2,2	—	2,2	0,1	4,1	0,1
Western Samoa	—	2,5	—	4,8	—	7,3	4,7	9,0	0,1	—	0,1	—	7,4	4,7
Seychelles	—	—	—	—	—	—	—	5,2	1,5	—	1,5	0,2	1,5	0,2
Tonga	—	1,5	—	1,9	—	3,4	2,6	6,0	0,2	—	0,2	—	3,6	2,6
Trinidad and Tobago	—	—	—	—	—	—	—	15,0	0,0	—	0,0	—	0,0	—
Tuvalu	—	—	0,1	—	—	0,1	0,1	1,5	0,8	—	0,8	—	0,9	0,1
Vanuatu	—	—	2,2	11,4	—	13,6	11,9	6,5	0,3	—	0,3	0,0	13,9	11,9
(Total other countries)	(2,6)	(24,0)	(3,0)	(27,9)	(—)	(57,5)	(29,5)	(163,7)	(22,5)	(—)	(22,5)	(3,1)	(80,0)	(32,6)
II. Regional projects	—	29,0	1,9	—	—	30,9	1,5	996,3	165,9	—	165,9	21,0	196,8	22,5
Total ACP (I + II)	39,1	278,1	46,7	367,4	—	731,3	402,1	4 962,5	1 397,8	136,7	1 534,5	67,1	2 265,8	469,2
III. OCT	—	1,0	—	—	—	1,0	—	73,5	0,7	—	0,7	0,1	1,7	0,1
Total 6th EDF	39,1	279,1	46,7	367,4	—	732,3	402,1	5 036,0	1 398,5	136,7	1 535,2	67,2	2 267,5	469,3

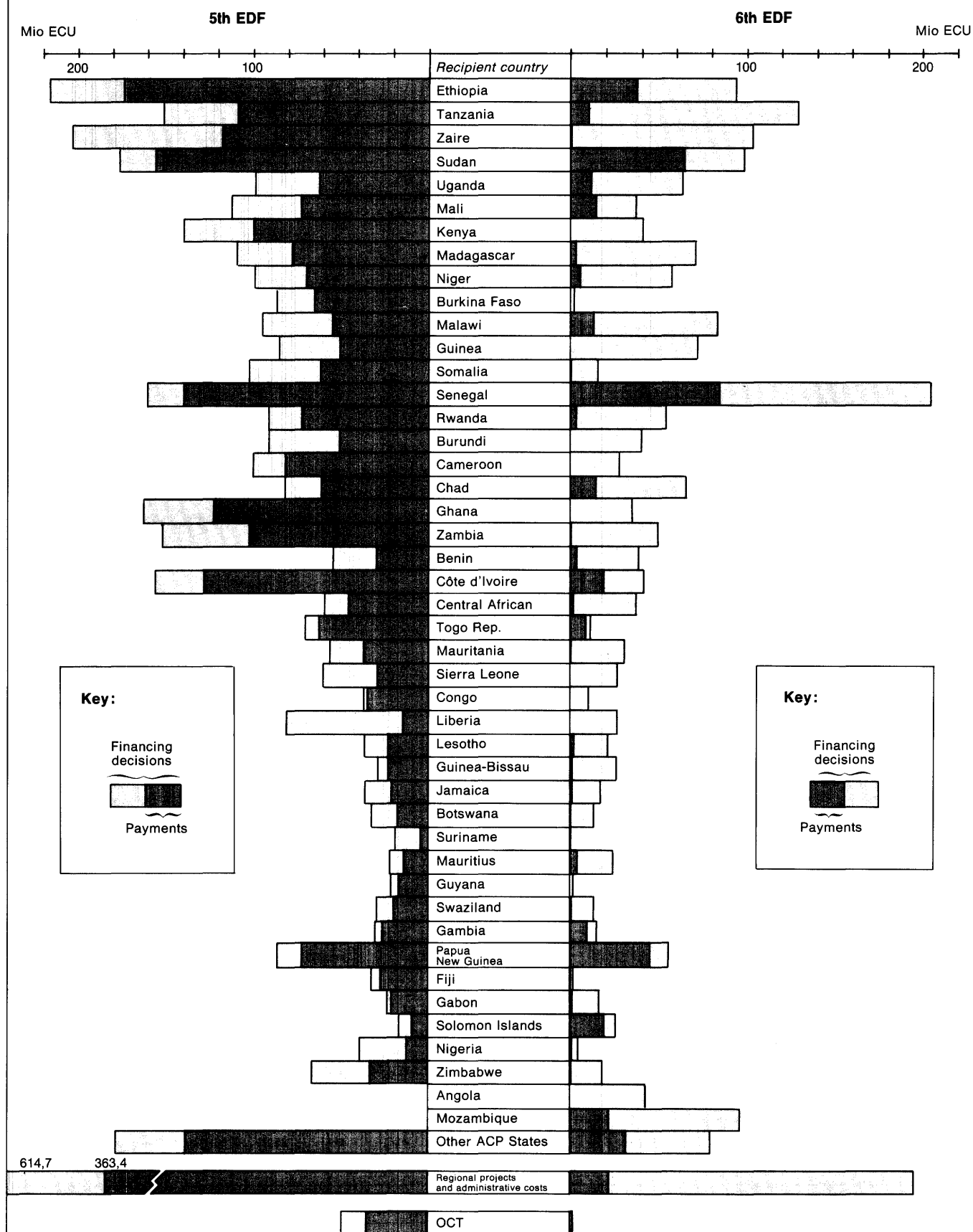
§ 25. The 6th EDF: aid by economic sector and by recipient country
(situation at 31 December 1987)

(Mio ECU)

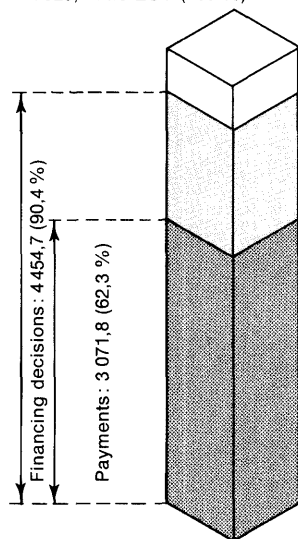
Recipient country	Financing decisions											Total payments
	Miscellaneous	Industrialization, energy and mining	Rural production	Transport and communications	Education and training	Health	Hydraulics and urban development	Trade promotion and tourism	Exceptional/emergency aid (*)	Stabex transfers	Total (2) + ... + (11)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
I. ACP States including:	48,4	295,2	856,2	333,4	41,4	26,5	39,4	27,0	34,1	367,4	2 069,0	446,7
Ethiopia	—	21,0	24,0	0,1	7,3	—	—	—	8,5	34,4	95,3	37,7
Tanzania	—	22,0	94,6	5,0	—	—	—	—	—	8,9	130,5	10,8
Zaire	0,2	7,8	44,4	47,1	0,7	—	4,0	—	—	—	104,2	0,6
Sudan	—	9,0	27,8	0,4	0,3	0,1	1,0	0,0	0,6	60,1	99,3	64,6
Uganda	—	—	15,8	24,0	8,3	0,0	—	15,0	1,1	—	64,2	12,0
Mali	—	—	23,0	—	—	0,2	0,1	—	0,8	14,2	38,3	14,8
Kenya	0,1	5,5	20,1	15,4	0,7	—	—	—	—	—	41,8	0,1
Madagascar	—	24,1	20,9	16,8	4,2	—	5,1	—	0,3	—	71,4	3,4
Niger	0,0	14,3	21,6	15,0	0,0	—	—	—	1,1	5,9	57,9	6,3
Burkina Faso	—	—	1,5	—	0,1	—	—	—	0,4	—	2,0	0,3
Malawi	0,0	4,1	37,7	25,5	—	9,7	3,2	—	1,8	2,4	84,4	13,3
Guinea	—	—	72,1	—	—	—	—	0,6	—	—	72,7	0,0
Somalia	—	14,6	0,0	0,5	0,3	0,7	—	—	0,3	—	16,4	0,5
Senegal	—	13,5	97,0	12,0	0,0	0,0	0,0	—	0,9	82,1	205,5	85,4
Rwanda	—	—	51,0	—	0,2	—	—	—	—	3,4	54,6	3,4
Burundi	—	3,0	35,6	0,5	—	—	1,4	—	0,2	—	40,7	0,0
Cameroon	—	—	27,6	0,2	—	—	—	—	0,2	—	28,0	0,3
Chad	—	—	17,0	20,9	—	12,0	2,2	0,0	1,2	12,8	66,1	14,4
Ghana	—	11,4	2,4	21,8	0,6	—	—	—	—	—	36,2	0,1
Zambia	—	28,7	12,3	0,7	7,8	—	—	—	0,7	—	50,2	0,3
Benin	0,2	—	—	28,1	0,5	0,0	6,6	—	0,4	3,5	39,3	3,7
Côte d'Ivoire	—	5,1	21,4	1,7	—	—	—	—	0,2	13,5	41,9	19,0
Central African Republic	—	—	35,0	0,6	—	—	—	0,5	—	1,7	37,8	1,7
Togo	0,5	—	—	—	2,4	—	—	—	—	9,3	12,2	9,3
Mauritania	0,4	15,0	0,2	15,0	—	0,1	—	—	0,3	—	31,0	0,5
Sierra Leone	—	7,0	—	20,0	—	—	—	—	0,1	—	27,1	0,1
Congo	—	—	—	0,1	—	—	10,0	—	—	—	10,1	0,0
Liberia	—	0,4	27,0	—	—	—	—	—	—	—	27,4	—
Lesotho	—	13,0	8,4	0,0	0,2	—	—	0,3	—	—	21,9	2,4
Guinea-Bissau	—	—	23,8	—	—	—	—	3,0	0,1	0,4	27,3	0,9
Jamaica	—	1,5	0,2	15,2	—	—	—	—	0,6	—	17,5	1,0
Botswana	2,0	6,7	3,7	—	0,5	—	0,5	—	0,4	—	13,8	0,3
Suriname	—	—	—	—	—	—	—	—	0,3	—	0,3	—
Mauritius	—	18,6	3,4	—	—	—	—	—	—	2,9	24,9	4,6
Guyana	—	—	—	2,0	—	—	—	0,1	0,0	—	2,1	0,0
Swaziland	2,5	3,3	3,1	—	3,4	—	0,0	1,4	—	—	13,7	0,5
Gambia	0,3	—	4,1	1,2	—	—	—	—	0,2	9,4	15,2	10,1
Papua New Guinea	0,3	6,6	3,0	0,0	—	—	—	—	—	46,4	56,3	46,4
Fiji	—	1,5	—	0,0	—	—	—	—	0,3	0,3	2,1	0,6
Gabon	—	—	16,7	—	0,1	0,0	0,2	—	—	—	17,0	1,3
Solomon Islands	0,6	—	5,8	—	—	—	—	—	0,5	19,0	25,9	19,7
Nigeria	—	3,7	0,1	—	—	—	—	—	1,1	—	4,9	1,0
Zimbabwe	—	0,9	9,5	—	0,9	0,3	2,5	4,5	—	—	18,6	0,4
Angola	0,5	4,0	35,1	0,4	0,1	0,4	—	0,0	3,2	—	43,7	0,2
Mozambique	40,5	3,0	1,7	35,0	2,3	0,1	—	0,0	5,8	8,9	97,3	22,1
Other ACP States:												
Antigua and Barbuda	—	—	—	—	—	—	—	—	—	—	—	—
Bahamas	0,0	0,1	—	—	—	—	1,8	—	—	—	1,9	0,0
Barbados	—	—	—	—	—	—	—	0,3	—	—	0,3	—
Belize	0,0	1,0	0,3	0,2	—	—	—	0,3	—	—	1,8	0,1
Cape Verde	0,3	—	—	—	—	—	0,4	—	—	—	0,7	—
Comoros	—	2,0	—	0,1	—	—	—	—	—	5,0	7,1	5,5
Djibouti	—	—	0,1	—	—	1,1	0,2	—	—	—	1,4	0,1
Dominica	—	3,8	—	4,3	—	—	—	0,6	—	—	8,7	1,8
Grenada	—	1,8	0,2	3,5	—	—	—	—	—	0,4	5,9	0,9
Equatorial Guinea	—	4,0	—	—	—	—	—	—	—	1,1	5,1	1,1
Kiribati	—	—	—	0,1	0,4	—	—	—	—	1,6	2,1	1,6
Sao Tome and Principe	—	2,1	4,1	—	0,1	0,0	—	—	0,2	1,6	8,1	1,5
Saint Christopher and Nevis	—	1,5	—	—	—	—	—	—	—	—	1,5	0,4
Saint Lucia	—	2,5	1,4	—	—	—	—	0,1	—	—	4,0	—
Saint Vincent and Grenadines	—	1,8	0,1	—	—	1,8	—	0,3	0,1	—	4,1	0,1
Western Samoa	—	2,6	—	—	—	—	—	—	—	4,8	7,4	4,7
Seychelles	—	1,2	0,3	—	—	—	—	—	—	—	1,5	0,2
Tonga	—	1,5	—	—	—	—	0,2	—	—	1,9	3,6	2,6
Trinidad and Tobago	0,0	—	—	—	—	—	—	—	—	—	0,0	—
Tuvalu	—	—	0,8	—	—	—	—	—	—	0,1	0,9	0,1
Vanuatu	—	—	0,3	—	—	—	—	—	2,2	11,4	13,9	11,9
(Total other countries)	(0,3)	(25,9)	(7,6)	(8,2)	(0,5)	(2,9)	(2,6)	(1,6)	(2,5)	27,9	(80,0)	(32,6)
II. Regional projects	12,0	25,4	15,1	128,6	5,7	—	—	8,1	1,9	—	196,8	22,5
Total ACP (I + II)	60,4	320,6	871,3	462,0	47,1	26,5	39,4	35,1	36,0	367,4	2 265,8	469,2
III. OCT	0,2	1,0	—	0,1	0,2	—	—	0,2	—	—	1,7	0,1
Total 6th EDF	60,6	321,6	871,3	462,1	47,3	26,5	39,4	35,3	36,0	367,4	2 267,5	469,3

(*) The differences compared with § 24, column 4 may be explained by the different analysis of projects under certain headings.

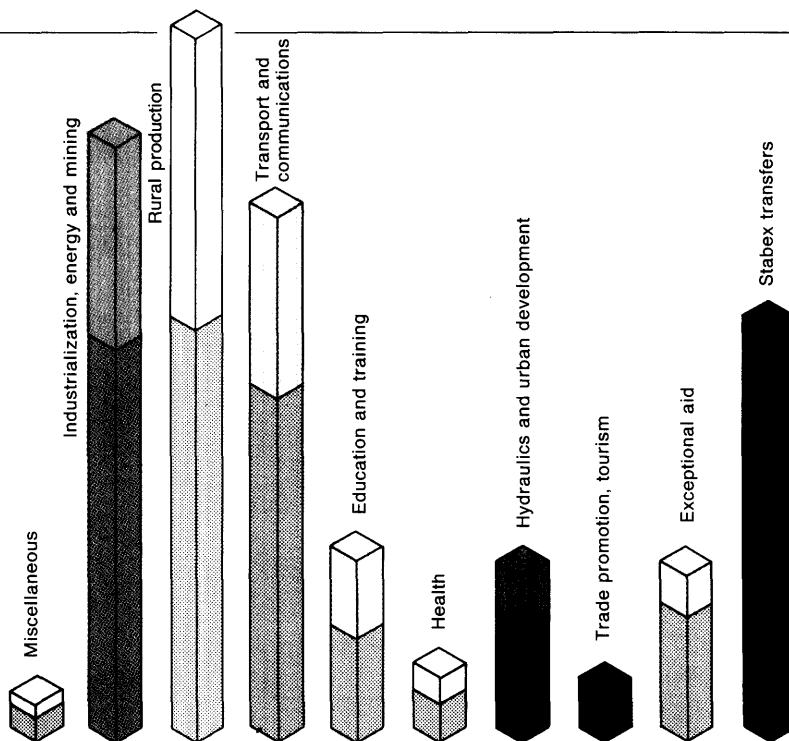
§ 26. The 5th and 6th EDFs: Financing and payment decisions by recipient country (31.12.1987)
(for detailed information see § 22 - § 25)



Financing decisions and payments by economic sector

**Total:**

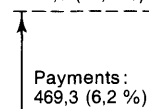
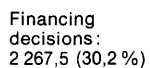
Financing decisions (Mio ECU)	4 454,7
Payments (Mio ECU)	3 071,8



By economic sector:

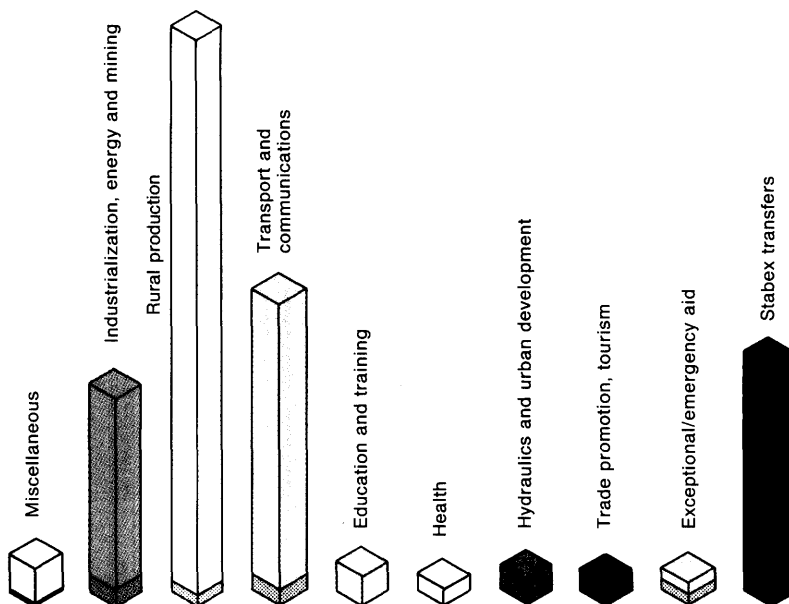
57,2	914,8	1 084,0	805,0	279,7	98,1	256,3	76,4	253,8	629,4
38,6	602,9	631,8	527,6	160,7	56,2	179,6	53,7	191,3	629,4

Allocation:
7 511,7 Mio ECU (100 %)



Total:

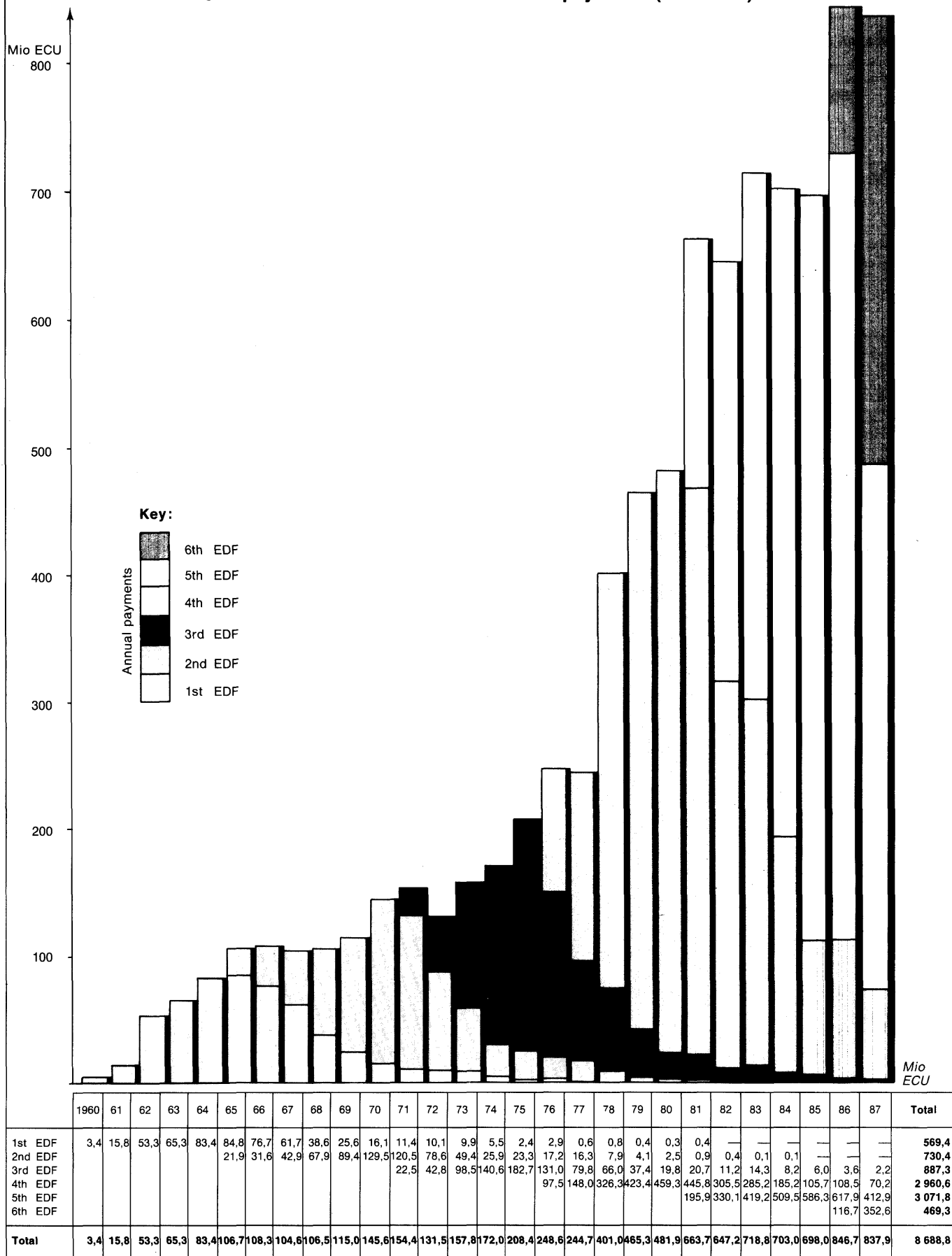
Financing decisions (Mio ECU)	2 267,5
Payments (Mio ECU)	469,3



By economic sector:

60,6	321,6	871,3	462,1	47,3	26,5	39,4	35,3	36,0	367,4
5,2	26,6	16,4	20,5	0,6	0,6	1,3	13,3	18,1	366,7

§ 28. The six EDFs: evolution of annual payments (1960-1987)



Replies of the institutions to the observations of the Court of Auditors concerning the financial year 1987
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PART I**General budget of the European Communities****CHAPTER 1****General matters****REPLIES OF THE COMMISSION**

In Chapter 1 of its annual report for 1987 the Court makes a number of general observations on:

- the main budgetary data resulting from the accounts for the financial year 1987 and
- the implications of shared management,

Before replying to these observations the Commission would like briefly to recall the reform proposals which it presented in 1987, culminating in 1988 in a series of decisions — on agricultural policy, the structural Funds, budgetary discipline, the own resources system and the financial regulations — which are of key importance for the future development of the Community.

The Commission believes that in the proposals it presented (those listed above being the most representative) and the decisions it took, it made full use of the power of initiative conferred on it by the Treaty.

It would also draw attention to the close collaboration which developed between the institutions with due respect for each other's areas of responsibility. Such collaboration is essential if the objectives are to be achieved. The high point was reached with the conclusion of the inter-institutional agreement on budgetary discipline between Parliament, the Council and the Commission, the political importance of which was highlighted by the Hanover European Council.

The Commission is now equipped to press ahead with implementation of its proposed reforms and with the constant task of enhancing the effectiveness of Community policies. This naturally implies closer cooperation with national authorities.

As regards the discharge procedure — for which the Court's report, together with the Commission's replies, constitutes the basis — the Commission agrees with Parliament that it represents a step forward in the effort to enhance sound financial management and to further the Community's development.

It has done everything it can to see that positive follow-up action is taken in response to the observations made by the supervisory authorities (Parliament in its resolutions accompanying the discharge decisions; and the Court in its annual and special reports) and will continue to do so.

MAIN BUDGETARY DATA RESULTING FROM THE ACCOUNTS FOR THE FINANCIAL YEAR 1987

The accounting surplus and the actual deficit

1.2 – 1.3. With regard to the Court's analysis of the balance for 1987, the Commission would like to see a distinction made between the assessment of the accuracy of the accounts, which — under the existing rules — showed a surplus of 521,5 Mio ECU, and the consequences of the decisions taken by the budgetary authority. The decision to defer to 1988 expenditure totalling 693,6 Mio ECU in respect of refunds to the Member States, for instance, was taken on 17 July 1987 when the supplementary and amending budget was adopted. The Commission mentioned this fact in its comments on the balance for the financial year.

However, it did not signal the failure to meet two months of EAGGF expenditure (4 546 Mio ECU) or the debts resulting from the implementation of part of the special butter disposal programme in 1987 (1 534,8 Mio ECU) for the following reasons:

To give effect to the conclusions of the European Council, the Regulations adopted by the Council on 19 October 1987 and 24 June 1988 limited the budget year *de facto* to 10 months in 1987. But this did not have the effect of shifting additional expenditure on to the 1988 budget; instead, with the second of these two Regulations a permanent two-and-a-half-month time-lag was introduced between the financing of EAGGF-Guarantee expenditure by the Member States and its being charged to the Community budget.

The Commission was also careful to give the budgetary authority a true picture of the situation when it clearly stated on page 61 of the 'Analysis of financial management' that: 'the 1987 financial year covered only some 10 months, distorting comparisons with the previous

financial year, which covered 12 months. This must be taken into consideration when reading the comments on the trend of expenditure in each sector.'

As regards the cost of the special butter disposal programme, the Regulation adopted by the Council on 16 March 1987 in the light of the deliberations of the European Council provides for it to be charged to the budget over four years beginning in 1989. This cost is included as a financial obligation in the annex to the consolidated revenue and expenditure account, where — for the sake of transparency — a distinction is made between:

- financial obligations already contracted (commitments actually made in 1987 for disposal of butter), and

- potential future cost (disposal after 1987).

The Commission can only reaffirm that the accounts are drawn up in strict compliance with the regulations and that, like the Court, it wishes to ensure that revenue and expenditure for the financial year are in balance. It is convinced that the decisions taken by the Council in 1988 on the basis of its proposals, in particular on budgetary discipline and the Financial Regulation, will help towards this end.

1.4 – 1.5. Bearing in mind its reply to paragraphs 1.2 – 1.3, the Commission would urge caution when comparing EAGGF-Guarantee expenditure for 1987 with previous years. Not only is it impossible to compare expenditure in a 10-month financial year with expenditure in a 12-month year, but it is also difficult to compare the 1987 financial year — when an exceptionally large quantity of butter was disposed of using a special financing mechanism — with previous years.

As regards the comparison between the rate of increase in agricultural expenditure and the growth of the own resources base, using the parameters agreed by the Fontainebleau European Council for enforcing budgetary discipline, the Commission would point out that the renegotiation of the budgetary discipline arrangements in 1988 clearly brought out the inadequacy of the parameters chosen in 1984 (flaws in the basis for the calculation and under-estimate of the impact of fluctuations in the rate of the dollar).

The fact that the accounts presented by the Commission are held to be inconsistent from one year to the next is not of the Commission's making. It can only see that they comply with the regulations.

1.7 – 1.9. In the absence of political agreement within the Council to allocate sufficient resources to the Community, there was no alternative — since budget execution must nevertheless be balanced — but to close the financial year for the EAGGF Guarantee Section early.

In the Commission's view this was a temporary technical measure pending the adoption of a new own resources system. At all events the financial year will revert to the normal 12 months in 1989.

As regards the consequences for control of adjusting the length of the financial year and the reference to the political objectives set by the Fontainebleau European Council, the Commission would refer the Court to its reply to paragraph 1.4.

Monitoring the implementation of the budget

1.12. The Treaty requires that the distinction between compulsory and non-compulsory expenditure be made when the budget is being prepared, since it reflects and determines the division of powers between the Council and Parliament. However, this distinction has no major significance for the way in which such expenditure is actually effected.

1.13. The Commission has always based its preliminary draft budget on the most rigorous possible analysis of the likelihood of actual execution, taking account of the multiannual policy guidelines which that preliminary draft must reflect.

It believes that the reasoned explanations which it presents each year for the appropriations requested for each sector and budget heading are ample proof of the effort made to ensure that the estimates are as reliable as possible.

It has also always endeavoured — subject to the data available within the strict deadlines imposed — to alert the budgetary authority in the course of the budgetary procedure to the likelihood of implementation when amendments are made and, of course, to any danger of inadequate funding.

1.14 – 1.15. The Commission welcomes the Court's very interesting analysis of the causes of under-utilization of appropriations. Apart from a few reservations which will be explained in detail in Chapter 2, it agrees with the Court's conclusions.

The data which it supplies to the budgetary authority and the control authorities throughout the budget process — from the estimates through to actual implementation — are designed to provide them with as clear a picture as possible and the documentation which it produces is much more detailed and frequent than required by the regulations.

Nevertheless, the Commission is prepared to make a further effort, but it would point out that budget execution must be assessed in terms of each Community operation identified in the budget nomenclature. As a rule those administering these operations know why execution falls short and do everything within their power to put matters right.

Future expenditure

1.16 – 1.19. The Commission would stress that much progress has been made in recent years as regards the analysis and presentation of items of future Community expenditure, in particular in Volume V of the revenue and expenditure account.

Nevertheless it agrees with the Court that this analysis must be taken even further in order to arrive at an objective presentation acceptable to all the institutions concerned. In particular a clear distinction needs to be made between:

- genuine 'future expenditure' in the narrow sense, in other words expenditure flowing from legal obligations (in particular outstanding commitments, disposal of agricultural stocks, international agreements, etc.); and
- the financial consequences forecast in the multi-annual programmes or the perspective. This second category does not, strictly speaking, come under the heading of 'future expenditure' for the purposes of the balance sheet, since it is simply a forecast — whether incorporated in a Council programme decision or not — of the expenditure considered necessary in the near future for the development of Community policies.

The Commission will very soon be taking steps to come to an agreement with the institutions concerned on the most appropriate way of presenting these data.

1.20. A schedule of potential expenditure in respect of public stocks of agricultural products does exist; it was adopted by the European Council and included by the Commission in the annex to the revenue and expenditure account. The relevant appropriations will be entered in each annual budget.

As regards the other schedules, the Commission would first point out that the purpose of the revenue and expenditure account is not to produce such schedules. It would also refer to the interinstitutional agreement. At all events, such schedules have to tie in with the multiannual programming.

1.21. When the accounts for 1986 were closed, the Commission estimated that payments to be made in 1987 in respect of commitments from differentiated appropriations still outstanding at 31 December 1986 would come to 4 991,4 Mio ECU. Actual payments made in respect of these commitments in 1987 amounted to only 3 871,5 Mio ECU, or 77.6 % of the forecast, as the Court points out.

The Commission acknowledges that some of the causes of under-utilization noted by the Court in Chapter 2 (Budget implementation) also hampered payments in 1987 of commitments from previous financial years. But it would add that 1 259,3 Mio ECU in commitments outstanding at 31 December 1986 were cancelled in the course of 1987, thus reducing the amount of debts incurred in previous years from 12 458,1 to 11 198,8 Mio ECU.

1.22. With regard to the fact that some of the commitments from differentiated appropriations still outstanding at 31 December 1987 were made long before, the Commission acknowledges the problem but would point out that 49 % of the amount outstanding at the end of 1987 was accounted for by commitments made during the year, while commitments more than three years old (i.e. dating from 1983 and earlier) amounted to only 10 % of the total.

As to the problem itself, the Court notes that appreciable progress has now been made in the case of the European Social Fund; the Commission shares the Court's concern about the other areas and intends to continue its effort to improve the monitoring of outstanding commitments. One move in this direction was the proposed amendment to the Financial Regulation of 21 December 1977 which was adopted on 24 June 1988, adding the following provision to Article 1: 'The legal commitments entered into for measures extending over more than one financial year shall contain a time-limit for implementation which must be specified to the recipient in due form when the aid is granted.'

1.23. As the Commission has stated in the past in reply to a similar observation by the Court, there is no one formula for commitments (e.g. the signing of contracts) that could possibly be applied uniformly to implementation of the budget as a whole.

The policies reflected in the budget are necessarily many and varied and this inevitably entails differences in the way they are implemented. Article 32 of the Financial Regulation recognizes this fact when it refers to 'provisional commitments', Commission decisions approving projects under the Funds, and the global commitments provided for in Article 96.

It is important to note that current policy developments — especially in the area of the structural Funds — tend to favour the 'programme' approach for technical, economic and political reasons. This development has to be borne in mind, since it has implications for commitment procedures, although it is not likely to undermine the technical and accounting significance of commitments as such.

Revision of the Financial Regulation

1.24. The Commission must stress that it presented a proposal for an overall revision of the Financial Regulation in 1980. This proposal was amended in 1984 in the light of the opinions delivered by the Court (in 1981) and Parliament (in 1983). Unfortunately the Council was unable to act promptly.

Since the situation had changed meanwhile, and in particular in the light of the objectives set out in the 'Delors package' for reforming the Community's financing system and reorganizing budget management, the Commission had to present a number of piecemeal proposals for amendments, notably as regards the principle of annuality and the terms under which the EAGGF Guarantee Section is financed. These specific proposals were designed to deal with changes in the general context and to meet the new requirements.

Moreover, the blame can hardly be laid at the Commission's door, since it was because of the Council's failure to act that the general revision proposal — which was quite consistent when originally presented — came to nothing. The Commission, at the request of all the institutions concerned, is currently drawing up a new proposal for a general revision of the Financial Regu-

lation with a view to resuming the revision process in line with the conclusions of the European Council of 11 to 13 February.

THE IMPLICATIONS OF SHARED MANAGEMENT

The principle of shared management and control

1.26 – 1.37. To begin with, the Commission must say that the term 'shared management' calls for some further explanation.

It needs only to be borne in mind that the common agricultural policy has necessitated the setting-up of a large number of paying agencies employing thousands of staff in the 12 Member States to realize that management is not 'shared' but, because of the nature of things, has had to be decentralized to each Member State. Another example of this is customs duties.

In the Commission's view, the emphasis should be on the fact that the decentralization, which dates back to the 1960s but is still perfectly justified now, means that primary responsibility for the day-to-day management of Community affairs lies with the national authorities.

Consequently supervision by the executive is essential, especially in the areas singled out by the Court in paragraphs 1.29 to 1.31. Improvements have to be sought by means of closer cooperation between the Commission and the relevant authorities in the Member States as regards monitoring, information and follow-up.

Some improvements have already been made or are provided for in horizontal regulations.

In the area of EAGGF-Guarantee operations the Commission, following the recommendations of Parliament and the Court, has introduced the systems-based audit method, starting with the clearance of the 1986 accounts. This involves checking whether national management and control systems are correct and reliable,

in place of the impossible task of verifying hundreds of thousands of individual financial operations.

This method has been introduced gradually, with priority being given to the intervention agencies, but it now applies to all products which come under a common market organization.

As regards the structural Funds, the framework regulation recently adopted on a proposal from the Commission is based on the principle that the best way of ensuring that Community measures are effective in terms of achieving their intended objectives is to establish a system for regularly monitoring the results attained and, if necessary, adjusting the operations under way in the light of the actual progress of the programmes. Here too, then, the principle of decentralization has been confirmed and even strengthened through the partnership between the Commission and the relevant authorities in the Member States. Thanks to this decentralization and the simplification of procedures, monitoring and evaluation will be enhanced.

In the research field, evaluation and monitoring policy has developed in several stages, the latest being the decision taken by the Council when it approved the 1987-91 framework programme. In particular this requires the inclusion in each specific programme of an article explicitly relating to evaluation. It should also be noted that a specific programme on the methodology of evaluating Community research programmes (Spear) has been proposed.

Lastly on the question of combating fraud, the Commission would recall that the anti-fraud coordination unit has been set up, that its working programme has been established and that it will be presented to Parliament, as the Commission promised.

With regard to the section '**Problems connected with the sharing of responsibilities in the main areas of Community activity**' (paragraphs 1.28 — 1.37), which summarizes some of the detailed observations set out elsewhere in the report, the Commission would refer to its specific replies under the relevant chapter headings.

Problems connected with the agency role assigned to the EIB

1.38 – 1.45. The problem of safeguarding the Court's powers in respect of Community resources used to finance operations where the EIB acts as agent remains one of the Commission's major concerns in establishing

the inter-institutional cooperation that is essential in every field of Community activity.

practical arrangement to reconcile the powers of the Court with the concerns of the Bank.

The Commission has intensified its search for a solution that satisfies all the parties involved. Following the undertaking given by the President of the Commission in a letter to the President of the Court on 30 April 1987, the Commission has made numerous efforts to find some

The latest proposals which the Commission sent to the Bank on 16 June 1988, modelled on the arrangements agreed in the ECSC field, will shortly be considered in detail by a working party comprising representatives from the Bank and the Commission, which is expected to complete its work by the end of 1988.

CHAPTER 2

Implementation of the budget and accounting mattersREPLIES OF THE PARLIAMENT**OBSERVANCE OF THE FINANCIAL
REGULATION***Procedures applicable to commitments and
payments*

2.31 – 2.33. The number of decisions to overrule the Financial Controller's refusal to give his approval is evidence of the rigorous internal control carried out to ensure that the complex provisions of the Financial Regulation and the relevant implementing provisions are strictly applied. Authorizing Officers within the EP have been reminded repeatedly of the need to ensure that these rules are adhered to scrupulously. Administrative measures have also been taken in the sectors concerned to prevent as far as possible situations arising in which the Financial Controller is obliged to withhold his approval.

**THE GENERAL ACCOUNTS AND THE
COMMUNITY BALANCE SHEET***Cash deficit at the Parliament*

2.55. By decision of 18 January 1988, the Appointing Authority took disciplinary action against Parliament's former Accounting Officer. A decision on the financial implications will be taken within the framework of the procedure for granting a discharge to the Accounting Officer for the 1982 financial year, which has been delayed owing to the action (Case No 44/88) ⁽¹⁾ brought by the official concerned in the Court of Justice of the European Communities and challenging the decision of 18 January 1988 referred to above.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

REPLIES OF THE COUNCIL**OBSERVANCE OF THE FINANCIAL
REGULATION***Observations arising from the audit of salaries
at the Council***Checks carried out by the Financial Controller**

2.19 – 2.22. Formerly the Financial Controller compiled the entire collective statement manually. This total was identical to the overall collective statement as such. However, the monthly difference in relation to the total

previous collective statement is specified on each occasion (i.e. every month).

Under the Financial Regulation, the Financial Controller does not have to have a hand systematically in the various stages and operations of the departments responsible for drawing up collective statements or for the keeping of files.

Segregation of duties

2.27. The principle of the segregation of duties of the Authorizing Officer, the Financial Controller and the Accounting Officer, provided for in Article 17 of the Financial Regulation, is observed.

1. The head of the division responsible for accounts is the Authorizing Officer; on the other hand, he does not in any way perform the duties of Accounting Officer.
2. As part of the reorganization of departments in progress, the General Secretariat of the Council will bring its organization into line with the constraints of the Financial Regulation.

2.29. The practice followed at the Council is the result of the needs arising from the existing *de facto* situation.

Absence of internal rules for the implementation of the budget

2.30. The Authorizing Officers implement the Council budget on the basis of the following provisions: the Council's rules of procedure, the Financial Regulation,

the procedures for implementing the Financial Regulation and the Secretary-General's decision appointing Authorizing Officers and Deputy Authorizing Officers and defining their powers in the area of expenditure and revenue.

Procedures applicable to commitments and payments

2.34. Given that it is impossible to assess the exact monthly amount of certain costs (including photocopies, telephone and telex, interpreters, Official Journal), the General Secretariat of the Council draws up proposals for commitment per instalment on the basis of preceding expenditure. As a result certain commitment proposals have been under-assessed and additional amounts have had to be committed after the event.

The General Secretariat will try its best to avoid any repetition of this situation.

REPLIES OF THE COMMISSION

ANALYSIS OF THE IMPLEMENTATION OF THE 1987 GENERAL BUDGET

Budget estimates and management of the appropriations

General assessment of the utilization of the appropriations

2.2 – 2.3. See the reply in Chapter 1 (paragraph 1.12).

2.4. The Commission obviously agrees with the Court that the budget adopted by the budgetary authority should, by definition, be a positive forecasting and authorizing instrument and that a 'negative reserve' is not compatible with this.

The Commission would point out, however, that formal recognition of the principle of a 'negative reserve' should be seen in the light of pragmatic considerations, based on experience, and that it cannot necessarily be assumed that budget orthodoxy is being abandoned.

As the Commission indicated in COM(88) 148 final of 18 March 1988, recourse to a negative reserve can be justified in the particular context of the Community budget for both procedural reasons (bringing the budgetary procedure to a close) and financial reasons (absorption at the end of the year of unavoidable discrepancies between authorizations and out-turn). Since the budgetary authority itself has had recourse in the recent past to a 'negative reserve' the Commission considered it preferable to make provision for the limited use of this device in a regulation ⁽²⁾.

2.5. As the Commission noted in its reply to paragraph 2.4 of the Court's report for 1986, it does its utmost to use these appropriations. But it does not always succeed, as the Court itself recognizes, either because Parliament's amendments produce an 'over-allocation' or because the necessary legal basis is not adopted in time.

Transfers of appropriations

2.6. It is true that the volume of appropriations transferred within the EAGGF Guarantee Section in 1987 was very high.

Transfers of appropriations are unavoidable because of the difficulties inherent in making agricultural forecasts. But these difficulties were compounded in 1987 by two extraneous factors which had nothing to do with the Commission's forecasting and management function.

The first factor was the package of decisions taken by the Council at its meeting from 8 to 16 December 1986 on reform of the market organizations for milk products and beef/veal. The bulk of the unutilized appropriations in the transfer referred to by the Court were for the milk products sector (887,3 Mio ECU). This was largely a consequence of the Council's decisions to reduce milk quotas and to spread the cost of the 1987-88 butter disposal programme over the years 1989 to 1992. These decisions, on which political agreement was reached in December 1986, were not finalized in legal form until March 1987, in other words, after final adoption of the 1987 budget on 19 February. Had the timing of the budgetary procedure made it possible to present a letter of amendment to the preliminary draft budget for 1987, making the adjustments the Commission knew in December 1986 would be needed, the transfer ultimately made could have been reduced by at least 40 %.

The second factor was the reduction of the budgetary year to 10 months. Given the seasonal nature of expenditure varying from one chapter to another, a budget prepared for 12 months cannot be executed with the same breakdown of appropriations between chapters in 10 months.

In any event, thanks to the increased importance now attached to forecasting and management of expenditure by chapter, the Commission will be reducing transfers to a far lower level beginning in 1988

Payment appropriations carried over

2.8. In 1986 the Commission explained why it considered the Court's interpretation to be incompatible with the letter and the spirit of the Financial Regulation as regards differentiated appropriations. The new provisions of the Financial Regulation on carryovers introduce arrangements which differ from those outlined by the Court.

Analysis of the utilization of appropriations

2.11 – 2.14. The Commission is aware of the difficulties encountered in using certain appropriations. It has taken careful note of the analysis of the principal causes of

under-utilization identified by the Court. It would point out, however, that some of these can have accumulative effect and that any conclusions drawn must therefore be qualified. Moreover, in addition to the reports it is required to present under Articles 29 and 75 of the Financial Regulation (quarterly reports and the analysis of financial management which accompanies the revenue and expenditure account), its monthly reports keep the budgetary and control authorities permanently briefed on execution of the budget.

The Commission would stress that, as a general rule, departments managing appropriations are well aware of the reasons for under- and over-utilization of the appropriations for which they are responsible and do everything they can to remedy the situation where this lies within the Commission's powers.

In this context the problems discussed by the Court in subparagraphs (a), (b), (c) and (d) of paragraph 2.13. could be eased by the far-reaching reforms proposed by the Commission in 1987 which should lead to a budgetary policy based on stricter principles of sound financial management.

As to the reference to rather unsatisfactory management by Commission departments, and in particular the appropriations which lapsed in Titles 1 and 2 of the budget (EAGGF Guarantee Section), the Commission would make the following points:

For the EAGGF Guarantee Section (including Chapter 40 (Fisheries)), the appropriations which lapsed correspond to advances not used by the Member States (see also Article 100 of the Financial Regulation of 21 December 1977).

As to the figure of 18,5 Mio ECU in 1987, the channels through which Community advances to the Member States are distributed to paying agencies are so complicated that should redistribution within a single country prove necessary, it is rarely possible. It is therefore quite normal that while some paying agencies may have exhausted the funds placed at their disposal others may have a slight surplus in hand.

This was the situation in November 1987 when the changeover from Community prefinancing to national prefinancing should have taken place, the precise moment being defined by Regulation (EEC) No 3183/87 as 'after the appropriations allocated to the EAGGF Guarantee Section for the financial year 1987 have been used up'. Most disbursing authorities made the changeover from one financing system to the other at a point when Community funds available to them were no longer sufficient to wind up the operation in progress, either in

terms of settling individual dossiers or feeding an item of expenditure into a computer.

Surpluses in hand which could have been used by other paying agencies could not always be transferred in time. Some agencies switched from the Community prefinancing system at the end of November, although a balance of advances was available, to avoid excessive overlap between the two systems. In the Commission's opinion, this approach was consistent with the terms of Regulation No 3183/87.

2.14. The reason for the under-utilization of Item 4702 (Modernization and development) is that 1987 was the first year of application of a new operation.

System of provisional twelfths

2.15. The Commission's proposal for revision of the Financial Regulation includes a number of provisions to clarify implementation of the provisional twelfths system and rule out the possibility of differing interpretations.

2.16. The different positions held by the Commission and the Court as regards application of the regulations relating to provisional twelfths for the EAGGF Guarantee Section are well known. The Commission would argue that it has observed the 'imperative need for rigorous and far-sighted management' in applying the system. It is true that the Commission has to assess the reliability of Member States' forecasts in making advances for EAGGF Guarantee Section expenditure. But it cannot grant advances which are well below those applied for unless it has serious, well-founded doubts about these forecasts.

Even if advances were to be treated as payments rather than provisional commitments, the Commission would have had no option, in the case in point, but to ask for an additional twelfth for February 1987. Either way, the effect on the calling-up of own resources would have been the same.

OBSERVANCE OF THE FINANCIAL REGULATION

Procedures applicable to commitments and payments

2.35. (a) The Commission would make the point that the monthly charging of payments relating to food aid involves a large number of accounting operations. There was no improper payment in the case mentioned by the Court.

(b) The deadlines in the agreement with India are indicative only.

(c) As regards the payments of 0.3 Mio ECU to non-governmental organizations, the Commission would say that the utmost care is taken to adhere to the general conditions, but the possibility of exceptions cannot be ruled out entirely.

Supporting documents

2.39. The Commission is well aware of the importance of providing complete supporting documents and adhering to the deadlines laid down in the Financial Regulation for the transmission of such documents to the Court. It regrets the delays, some of them due to the steady increase in the volume of documents to be dealt with, which occurred during 1987. In future it will see to it that the Court receives all the documents it needs for its audit.

RECOVERY OF PAYMENTS ON ACCOUNT RELATING TO OPERATIONAL EXPENDITURE

Procedures for identifying recoveries and entering payments made on account in the accounts

2.41 and 2.53. (a) The Commission is fully aware of the importance of monitoring outstanding commitments. Periodical reviews are conducted, one purpose being to assess the situation with regard to recovery.

However, because the legal nature of the financial operations managed by Commission departments is so diverse, Authorizing Officers are in the best position to monitor dossiers.

The Commission recognizes in principle the value of diversifying central accounting data. It will keep the Court's comments in mind for further development of the new Sincom system.

2.41 and 2.53. (b) and (e) Considerable efforts have been made in recent years, notably by expanding the internal rules and issuing appropriate instructions, to ensure that Authorizing Officers keep as close an eye as possible on the execution of expenditure. This implies the issuing of recovery orders where payments on account are identified as recoverable.

More generally it can be said that where results are not entirely satisfactory, the fault lies not so much with inadequate internal arrangements but rather with a legacy from the past which is being dealt with gradually:

- in the past, as a general rule, there was no systematic time-limit for the execution of multiannual commitments. Discipline should be stricter in future under the new Article 1(3a) of the Financial Regulation;
- a better match will be sought between the means (including staff) made available to Authorizing Officers to ensure execution of the budget and the need for on-going detailed monitoring of individual dossiers. Appropriate steps will have to be taken in future in relation to the practices of Authorizing Officers and the means at their disposal to improve the situation.

The current revision of the basic regulation, and measures to be taken to implement it, should clarify the mechanisms triggering recovery operations, notably as regards the interpretation and identification of those truly responsible where problems of this kind arise.

2.41. See the reply to paragraphs 2.41 and 2.53(a).

2.42. *Médecins sans frontières/Belgium (MSF-B)*: NGO 222/86/B. The Commission would draw attention to the following points:

- on 12 May 1987 MSF-B supplied an interim report on expenditure in 1986 and a provisional budget for 1987;
- on 14 July 1987, MSF-B reported that difficulties had arisen and that the project had been temporarily suspended following intervention by the military governor of the region;
- on 9 February 1988 MSF-B reported that it had had to leave the region and that the project would have to be abandoned. Given the political nature of the difficulties encountered by MSF-B the Commission decided to postpone closure of the project;
- on 19 August 1988 the Commission wrote to MSF-B asking it to supply the additional information needed for recovery of the unused contribution (89.954 ECU) plus any bank interest.

It is often necessary to await a progress report, or indeed to conduct an audit, to establish the sum to be recovered as a preliminary to the issuing of a recovery order allowing the Accounting Officer to proceed with recovery.

2.43. In the vast majority of cases revenue is placed in a suspense account because there is no reference which would make it possible to link it to a recovery order. The Commission tries to get hold of these references as quickly as possible. On the Social Fund, the Commission would refer to the replies in Chapter 7 below.

Using recoveries of payments on account to finance new expenditure

2.45. The most recent amendment to the Financial Regulation, combined with reform of the structural Funds, should lead to improved harmonization of the procedures for re-use.

2.46 and 2.53. (c) It is true that the Commission has no criteria for the re-use of payments on account which have been recovered. Since application of the provisions allowing the re-use of sums improperly paid is optional, some departments had recourse to them whereas others entered the sums in question as revenue.

In its proposal for a general revision of the Financial Regulation the Commission intends to include an entirely new provision which would result in sums thus recovered being treated in the same way as amounts released from commitments. This would ensure uniformity in the reconstitution of commitments, the re-utilization of certain means of payment, and the practices of Authorizing Officers.

Presentation in the annual accounts of recoveries of payments on account and their re-use to finance new expenditure

2.48, 2.49 and 2.53. (d) The Commission recognizes that at present the annual accounts do not identify sums recovered and re-used to finance new expenditure. This is because of the way some recoveries are handled and the relevant computer programs. Whether they are entered in the accounts as revenue or as negative expenditure, recoveries are not distinguished from other transactions for the purpose of presenting revenue and expenditure in the revenue and expenditure account. On the other hand, recoveries re-used are shown separately, broken down by budget heading, in the annual accounts. The Commission is examining the possibility of improving the presentation of recoveries in the context of its general review of this question.

Recovery procedures

2.51. Although procedures are a problem in certain cases, the system as a whole cannot be challenged. Enormous progress has been made, improving the situation considerably.

Recovery is conditioned (a) by the basic or sectoral regulations and (b) by the way in which certain dossiers are administered. The Court itself considered this problem in its Special report No 1/88 on national and Community systems and procedures relating to the management of the European Social Fund (OJ C 126, 16.5.1988).

It found that the regulations themselves were not always consistent and that this alone made effective monitoring of recovery procedures very difficult.

The examples cited by the Court in paragraph 2.51(b) demonstrate that the Commission does pursue recovery.

Wherever possible it initiates recovery procedures even in cases of rehabilitation by the courts. It has introduced a system to speed up debt collection procedures and to close dossiers relating to monies which are considered to be irrecoverable. This is the only way to recover at least a proportion of the monies in question when the debtor goes into definitive liquidation or when he resumes activity.

(a) and (b) These factors are being considered in the context of revision of the Financial Regulation.

Final observation on the recovery of payments on account

2.52 – 2.53. The Commission would refer to its replies to the previous paragraph.

2.53. (f) Losses resulting from bankruptcies are small and the cost of recovery in such cases is out of all proportion to the possibility of success. The Commission is considering the possibility of introducing arrangements that would give it more scope for action, but without losing sight of the need for cost-effectiveness.

2.54. This matter is being considered in the context of revision of the Financial Regulation.

THE GENERAL ACCOUNTS AND THE COMMUNITY BALANCE SHEET

Revenue to be recovered

2.56. The Commission is well aware of the importance of rapid, efficient debt recovery. In the interests of sound management, it has concentrated its efforts on clearing up cases of debts which fell due between 1980 and 1986. Although the amounts involved are relatively modest in comparison with debts for the current year, they do represent virtually the same number of cases as for amounts which became due in 1987. A large proportion (83 %) of debts for 1986 and 1987 relate to the Social Fund and reflect the volume of commitments cancelled in 1986 and 1987.

This is why the Commission has concentrated on Social Fund cases and debts which fell due prior to 1987. In its opinion with this approach, plus improvements to the computerized file management system, the situation as regards debts outstanding should stabilize in the course of 1988.

Recoverable taxes and duties

2.57 – 2.59. Following the letters sent in June 1986 to Member States which do not operate the direct system of VAT exemption, discussions took place between the Commission and all the Member States concerned except Greece. The seven countries rejected the Commission's request to replace *ex post* repayment of VAT by direct exemption because of the control problems direct exemption would cause them. They would have to introduce procedures to eliminate the possibility of irregularities where individuals subject to VAT are authorized to invoice net of VAT in certain circumstances. *Ex post* repayment raises no problem of this kind: the Member States merely check the repayment request on the basis of supporting documents presented by the Commission.

As far as the two new Member States are concerned, detailed rules for applying the protocol are being discussed with Portugal and a letter of formal notice has been sent to Spain.

2.58 – 2.59. The Commission did experience some problems in 1987, the first year of application of the new accounting procedure, but it is endeavouring to solve these. It is true that at the end of May 1988 only four repayment requests had been issued, but by the end of July all the repayment requests had been sent to the Member States.

As regards the figures shown in the balance sheet, it should be remembered that detailed rules for applying the protocol are not yet known for Spain and Portugal.

Advances to staff

2.60. In reply to a comment made by the Court in its 1986 report, the Commission indicated that it had introduced a new computer system (Sincom) for its general accounts on 1 January 1987 and that this combined with other improvements should facilitate monitoring of advances to staff. When the accounts were

closed at the end of 1986, balances were fed into this new system. In mid-1987 the Commission's accounting departments embarked on a detailed analysis of balances from past years using Sincom facilities.

The Commission admits that the situation at the end of 1987 was not entirely satisfactory but it is pressing ahead with its work in this area. In the case of advances on mission expenses, 60 of the creditor balances detected by the Court during its audit had been cleared by the end of June.

Furthermore, the Commission's accounting departments, in association with the managing departments, are endeavouring to devise procedures which would eliminate charging errors (development of interfaces between the computer systems of the accounting and management departments) or allow of their early detection (closer cooperation between accounting and managing departments to ensure regular checks on accounts throughout the year).

Reliability and completeness of the EAGGF-Guarantee accounts

2.61. Member States' declarations can only be checked on the basis of final accounts during the clearance procedure.

The Commission is merely applying Article 99 of Financial Regulation, differences between expenditure charged to the accounts for one financial year and expenditure established by the Commission during the clearance procedure being charged to the year which clearance takes place.

2.62. As regards adjustments, the Commission is prepared to consider possible solutions along the lines indicated by the Court, perhaps by an appropriate entry in the Annex to the revenue and expenditure account and the consolidated balance sheet.

2.63. The Commission is endeavouring to reduce delays in entering EAGGF Guarantee Section expenditure in the budgetary accounts by improving the relevant computer applications.

It has accordingly decided to replace the computer system used by authorizing departments by a more modern tool. As a transitional arrangement it has transferred existing programmes to more efficient equipment making it possible to decentralize and speed up the input of data.

The transmission of data from authorizing departments to accounting departments has been speeded up too: since August 1988 information has been transferred by an automatic interface made possible by changing the computer equipment in authorizing departments.

2.64. Differences between the Commission's EAGGF Guarantee Section balances and those of certain Member States are due to the fact that the Member States had not incorporated all the corrections notified to them by the Commission.

During 1988 these balances, as recorded in the Commission's balance sheet were deducted from sums due to the Member States. Since there have been no objections, it can be assumed that the Member States' balances were incorrect.

Clearance of food aid accounts

2.65. The Commission is aware of the problems that can arise from the late clearance of accounts. It agrees with the Court that steps need to be taken to eliminate the existing backlog. A decision clearing the accounts for 1980, 1981, 1982 and 1983 for five Member States will be taken shortly.

As regards the effect of exchange-rate fluctuations, it should be noted that the effects ought to be assessed for all the Member States. Since some Member States' currencies have appreciated against the unit of account while others have depreciated, movements will have cancelled each other out to some extent.

In any event the Commission will pursue its efforts to clear accounts with a view to removing the backlog as quickly as possible.

Monitoring of bank accounts

2.66 – 2.68. The Commission has been endeavouring to solve these problems for some years now. It is constantly negotiating new terms with its banks.

It must be said that monitoring of banking terms presents real difficulties. Gradual implementation of the Sincom system should make it possible to introduce automatic monitoring.

2.66. The Commission has invited the bank responsible for 80 % of the errors noted by the Court to adhere to the agreed terms.

2.67. The Commission will see to it that the incorrect information supplied by certain banks is rectified.

2.68. The Commission's Accounting Officer meets his opposite numbers in the other institutions at regular intervals to coordinate procedures as far as possible.

Various items of revenue to be credited

2.69. The situation of this heading improved during 1987, bringing the balance on this account from 27,1 Mio ECU on 31 December 1986 to 10,1 Mio ECU on 31 December 1987. The Commission intends to pursue its efforts in this area despite the difficulties it is encountering (increase in the number of revenue items, difficulty of identifying repayments made by many debtors). The Commission has taken note of the charging errors detected by the Court and corrected them in the accounts for 1988.

Loans granted to Mediterranean countries

2.70. The amounts entered as 'Loans on special terms in the context of cooperation with third countries' represents budgetary expenditure charged to successive financial years. They appear in the Community's balance sheet as an asset (an identical sum being shown under 'own capital' on the liabilities side) following a review at the end of the year of loans granted in successive financial years which have not been reimbursed. The Commission regrets that the list of loans compiled at 31 December 1987 contains anomalies and will tighten its controls to ensure that mistakes of this kind do not recur.

Exchange-rate differences

2.71. As mentioned by the Court, the Commission has initiated discussions between the various institutions with a view to harmonizing the way exchange-rate differences are presented in the accounts and how they are dealt with for audit purposes.

REPLIES OF THE COURT OF JUSTICE

**OBSERVANCE OF THE FINANCIAL
REGULATION**

workload permits having regard to the staff at his disposal.

Observations resulting from the salaries audit

The Court of Justice is examining the possibility of appointing an assistant Financial Controller.

Control exercised by the Financial Controller

Separation of functions

2.23 – 2.24. The Financial Controller of the Court of Justice inspects all the personal files of officials and other servants between the stage at which rights are fixed or modified and the stage at which salaries are validated and calculated. He will perform checks during the year on the various salary components as soon as his present

2.29. Since at the Court of Justice three persons who are not Authorizing Officers have been appointed signatories to the bank accounts the Court will henceforth as a general rule have recourse to the signature of those persons and not to that of an Authorizing Officer.

REPLIES OF THE ECONOMIC AND SOCIAL COMMITTEE

**OBSERVANCE OF THE FINANCIAL
REGULATION**

**Lack of internal rules for the implementation of the
budget**

Comments arising out of the salaries audit

2.30. Although formal provisions, as provided for in Article 4 of the Commission Regulation of 11 December 1986, have still not been drawn up by the ESC, a division of responsibilities between Authorizing Officers and managing departments has been adopted.

Separation of functions

*Procedures applicable to commitments and
payments*

2.28. The ESC was of the view that the Financial Regulation did not prevent persons other than Accounting Officers having powers of signature in respect of bank accounts. In its opinion it was desirable that one of the two signatures should always be that of an Accounting Officer, the other being a person with separate responsibilities. The fact that in the ESC these other persons are Authorizing Officers stems solely from the small number of officials able to assume such a responsibility. Insofar as possible, the ESC will gradually delegate the power of signature in respect of bank accounts to persons other than Authorizing Officers.

2.36. Since 1 January 1988 a new accounting system has been introduced at the ESC based on the programme used by the Council and recording both commitments and payments.

2.37. It is true that, because of staff shortages, expenditure commitments have in some cases been drawn up after the receipt of invoices. Considerable efforts have been made over recent months to avoid such infringements.

(1) OJ C 89, 6.4.1988, p. 11.

(2) OJ L 185, 15.7.1988.

CHAPTER 3

Revenue

REPLIES OF THE COMMISSIONTHE COMMUNITY TRANSIT SYSTEM —
ROAD*Introduction*

3.3 – 3.35. The Commission shares the Court's concern as regards the difficulties in applying this system.

When conducting its inspections of own resources the Commission will check that the competent national authorities apply the Community rules correctly in line with the Court's comments.

The practical problems connected with application of this system, in particular those described by the Court in its report, will be discussed within the Committee on the Movement of Goods.

Impact of the system on Community own resources

3.9. With staff and material resources for inspections being limited, trade facilitation — if applied rationally (for instance, depending on the mode of transport or the reliability of the operation) — need not rule out the possibility of concentrating inspections on those fields which appear most problematical. The inspection methods would thus be employed to better effect.

3.10. The rules on Community transit have always made a distinction between the procedures applicable to internal transit (T2) and those applicable to external transit (T1), with greater flexibility being gradually introduced in the internal Community transit system. There is a growing divide between internal transit and external transit. The latter is treated with all the strictness required in view of its basic role of safeguarding own resources. In this respect, the Commission shares the Court's opinion that the Member States must be particularly vigilant when applying the external Community transit system.

*Observations arising from audit of the system as operated in Member States***Security of transit documentation**

3.11. The transit document is completed with the dispatch note or export declaration and the No 1 copy is kept by the office of departure. When copy No 5 is returned, the office of departure compares the two copies and is therefore able to see whether the T1 entry has been altered in transit.

The case of the T1 mark being falsified on copy No 2 alone (now copy No 4) after the transit operation has been completed should not occur, since this copy is kept by the office of destination. The customs authorities will be specifically reminded of this rule.

3.12. The practice of using a T1 document for Community goods observed by the Court is not likely to jeopardize the collection of own resources.

Sealing of means of transportation on departure

3.13 – 3.14. In principle, loads must be sealed; this rule has been confirmed in the case of particularly sensitive goods by means of administrative arrangements.

However, Community transit has always been intended as a system accessible to all operators and the rules on sealing were therefore less rigid than under the TIR system. In particular, the simplified procedure which some operators are allowed to apply also gives greater concessions as regards sealing.

Even with the prospects of the free movement of goods with Community status from 1992 there is none the less a tendency at present towards a certain flexibility in the use of sealing for this type of goods. On the other hand, it has been formally stipulated that loads being carried to or through Switzerland or Austria must be sealed.

The problem of sealing goods from non-member countries will be reviewed with the Member States in due course on the basis of the Court's report.

Control of goods at offices of destination

3.15. The Commission has taken note of the Court's observations. As regards the controls at ports, the suggestion that the signature of customs officials should be accompanied by a special individual stamp will be examined with the Member States.

Treatment of irregularities discovered at office of destination

3.16. The unsatisfactory flow of information between the office of destination and the office of departure should be remedied by the arrangement of 1 January 1988 which

the Court mentions at the end of the paragraph and which is designed to ensure that the office of departure is given the fullest information possible when irregularities are established.

Delays in discharging transit operations

3.17. The Commission is constantly taking both general and specific measures to ensure that transit documents are returned as quickly as possible. It will use the Court's report as an opportunity to draw the attention of the authorities once again to the need to comply with the deadlines.

Inquiry procedures

3.18. It is true that one of the major problems facing the authorities in their search procedures is the absence of a reply to a search notice despite repeated reminders

An administrative arrangement introducing a harmonized procedure for cases of this type was adopted by the Committee on the Movement of Goods on 21 March 1988 and entered into force on 1 July 1988.

3.19. The Commission has taken note of the comments on the feedback to the office of departure concerning the conduct and outcome of the measures taken by the Member State responsible for the recovery of the charges due in order to prevent any improper discharge of operations or any unwarranted delay in this discharge.

3.20. The situation described doubtless exists but it is inherent in the nature of the comprehensive guarantee as the Community legislator intended. This guarantee may cover successive or simultaneous transit operations from any Member State or EFTA country where it is valid without it being legally or materially possible to challenge it when the principal has received agreement in advance in the form of a valid guarantee certificate.

Recovery of own resources in non-discharged cases

3.21. The Commission would confirm that it does not consider it appropriate to make a distinction between the recovery of customs duties and the recovery of taxes.

3.22. The Commission is also aware that the search procedure may take a fairly long time and that a relatively large number of cases may therefore remain pending. However, experience shows that the search procedure which, it is assumed, is initiated in the event of irregularities, usually encounters several obstacles which inevitably cause delays. Despite this, the Commission and the Committee on the Movement of Goods are always at pains to ensure that the search procedure operates smoothly. For instance, in addition to the arrangement referred to at 3.18, the Commission is now examining the proposal for a new model search notice designed to expand the possibilities of use and thus eliminate the correspondence which often causes delay.

Post-clearance verification procedures

3.23. As a result of the Court's observations, the Commission will remind the authorities concerned of the administrative arrangements for the retrospective inspection of Community transit documents and, in particular, the rule which states that, in addition to cases where an error or inaccuracy is suspected, one in every thousand transit documents returned must be inspected at random with a minimum of two documents a month from each office of departure.

Maintenance of transit registers and other records and management control

3.24 – 3.25. The methods for the management of transit operations and cases of dispute are the responsibility of the authorities, as is the way in which their departments apply these methods. It is a matter of internal management in the customs authorities of the Member States, although this does not rule out measures at Community level to end or remedy any deviations from the norm which are detected and might compromise own resources.

Central transit offices

3.27. The Commission shares the Court's concern and has already drawn the attention of the Member States to the need for using suitable packages for the dispatch of documents; it will not fail to take stronger action in an attempt to solve this problem.

3.28. The suggestion that documents covering regular large trade flows between the same customs offices should not pass through the central offices may appear to be a solution which would partly speed up the return of documents, but in practice there is a risk that this will be a source of error and delay in the return of documents.

Accounting for transit operations by means of computer-based techniques

3.29. The pilot project mentioned by the Court has been abandoned since it was incorporated in a broader project (the CD project) which aims to computerize all customs procedures.

Role of the Committee on the Movement of Goods

3.31. The Commission agrees with the Court about the need to improve and speed up the procedure for the adoption of administrative arrangements and will examine the means of progressing in this direction, in particular in the adoption procedure.

Conclusion

3.32. In addition to the progress already achieved, the Commission will examine the possibility of tougher administrative measures for implementing the external Community transit system without, however, losing sight of the main point of the system — facilitating the movement of goods.

3.33 The Commission has noted the problems of applying the rules on Community transit observed by the Court in the customs offices of the Member States and will continue its activities or, where applicable, prepare new measures so that these procedures will operate as effectively as possible.

3.34. An improvement in the operation of the central offices is to be desired. In particular, their duties, which are on the whole those of a sorting centre, could be extended to inspection.

However, as the Court states, only progress in developing computerized procedures is likely to lead to substantial improvements in dealing with the problems involved in the discharge of Community transit operations in terms of both time-saving and reliability.

3.35. The Commission intends to make the Committee assume all its responsibilities as regards application of the Community transit system and will make a point of submitting to the Committee proposals to improve application based on actual well-defined situations.

SYSTEM FOR IMPOSING AND BRINGING TO ACCOUNT OF ANTI-DUMPING DUTIES

Observations arising from audit of system for imposing and bringing to account of anti-dumping duties

Anti-dumping duties in the Community accounts

3.46. Article 2 (2) of the proposal for a Council Regulation on the entry in the accounts and terms of payment of the amounts of the import duties or export duties resulting from a customs debt (COM(84) 739 final of 7 January 1985) states that it is for the Member States to determine the practical procedures for the entry in the accounts of the amounts of duty.

However, the Commission would welcome the separate accounting of anti-dumping duties by all Member States, though it has to be remembered that anti-dumping duties are not regarded by the Community or its major trading partners as being primarily revenue-raising measures.

Dissemination of decisions to impose provisional anti-dumping duties

3.47 – 3.48. The Commission is aware of the problem arising from immediate application of an anti-dumping duty or any other rule involving the collection of taxes. The development of computerized transmission methods should lead to an improvement.

In the longer term, when the Taric interface is operational, the Member States will receive direct all the information needed for their tariff records. This is likely to lead to a substantial improvement in the application of the rules.

Establishment as own resources of provisional anti-dumping duties

3.51. The problem should resolve itself once the new Commission proposal for a Council Regulation implementing the Decision of 24 June 1988 on the system of the Communities' ⁽¹⁾ own resources is adopted and implemented.

When a provisional anti-dumping duty becomes definitive, the obligation to provide a guarantee in accordance with the second sentence of Article 11 (1) of Council Regulation No 2176/84 of 23 July 1984 becomes an obligation to pay the duty in question. The customs authorities must notify the importer of this new situation. If the importer does not pay the duty, the guarantee is surrendered. Irrespective of this recovery procedure, under Article 2 of the abovementioned proposal the amount due from the importer is established as soon as he is notified and is then entered in the accounts (Article 6 (2)(a) and made available to the Commission (Article 9 (1)).

Customs controls on imports of goods which are potentially liable to anti-dumping duties

3.56. It is the authorities of the Member States which are responsible for applying all Community rules governing trade between the Community and non-member countries. As a result of the Court's question concerning anti-dumping duties, the Commission will conduct a more general examination of the application

(1) The footnotes are listed together at the end of the chapter.

and organization of controls, particularly for sensitive products.

more systematic and comprehensive method of monitoring has now been adopted.

Imposition of provisional anti-dumping duties and monitoring of undertakings by the Commission

Provisional anti-dumping duties

3.57. The Commission is naturally aware of the possibility of forestalling an anti-dumping duty by increasing imports of the dumped product while the investigation is in progress. This is one of the reasons why every effort has been made to reduce the time between the initiation of the investigation and the imposition of provisional duties in recent years, in spite of the increase in the number of complicated investigations. Further reductions in this time period could only be achieved by an increase in resources, since Articles 7 and 11 of the Community's anti-dumping regulations and Articles 5 and 10 of the GATT Anti-dumping Code distinguish between the prima facie evidence required for the opening of an investigation, and the provisional affirmative finding required before provisional duties may be imposed, resulting from the examination of the facts.

The acceptance and monitoring of undertakings

3.58 – 3.59. The Commission readily agrees on the need to monitor undertakings effectively once they have been accepted, and recognizes that in the past this monitoring has not been as comprehensive as it would have wished. This was due solely to staffing limitations which meant that effort had to be concentrated mainly in problem areas where information supplied by Community producers and other traders had led to the suspicion that the undertakings were not being respected. Although this monitoring was not fully comprehensive it was not ineffective and, in addition to the cases mentioned by the Court where provisional duties were imposed, the monitoring led to the opening of reviews on two other products. Moreover, it is the practice of the Commission, as a matter of equity, to give the exporter a chance to explain his actions before a provisional duty is imposed.

The Commission fully recognizes the need to dispel any doubts of the effectiveness of the monitoring applied in this area, however, and following discussions during the Court's examination referred to in paragraph 3.39, a

AGRICULTURAL LEVIES ON IMPORTED CEREALS

Determination of the levy — world cif price

3.67. (a) A file note is drawn up for the determination of cif prices. The Commission admits that the reasons for rejecting the lowest cif price were not always sufficiently explained. It now ensures that the reasons are mentioned more explicitly.

(b) The Commission's calculations take the following factors into account:

- Freight rates do not vary from day to day and thus remain valid for a certain period which may be as much as two or three months;
- Freight rates differ according to the size of the vessel which, for journeys from the United States for example, may range between 15 000 and 75 000 tonnes or more. The freight rate used must therefore be the matter of some interpretation. The Commission plans to continue monitoring transport costs even more closely in future.

Information on trans-shipment charges at Rotterdam does indeed come from one source (GEM Rotterdam) which has a monopoly on rates, but this company is controlled by the Dutch authorities and is considered reliable and representative. The amount has remained the same for several years because of the low level of inflation and the freeze on rates in the Netherlands.

The insurance charges have also been supplied by one source, the German intervention agency, BALM; however, this institution is recognized for its reliability.

(c) It is true that the official cif price information supplied by some of the Member States is unsystematic

and unsatisfactory. However, this is not the case with the real importers such as the Netherlands, Germany, Belgium or Italy. If they are to be used, the cif prices must be cif Rotterdam and in US dollars. The British and Irish prices are quoted in national currency and for British or Irish ports which are not comparable with Rotterdam. It is therefore understandable that the Commission faces some difficulty in expressing these prices in terms of a single cif Rotterdam base since the corrective elements in this small geographical area of intensive trading are extremely varied and fluctuate considerably (large number of ports, large range of tonnage, effect of export flows on rates since large volumes of cereals from the United Kingdom are trans-shipped at Ghent, Antwerp or Rotterdam for export).

The question of a specific regulation institutionalizing the exchange of information on cif prices between the Member States and the Commission has frequently been discussed at national expert level, but no common ground has ever been found because the real use of such binding provisions has not been obvious nor have they been considered essential. However, the Commission will again discuss these matters with the Member States.

(d) Over the past year or so improvements have been made in the tasks of supervising procedures and checking calculations as a result of computerization, which has restricted the risk of error, allowed cross-checking and offset the shortage of staff available for these duties.

3.68. The Commission will continue its efforts to achieve the highest degree of detail and reliability possible in fixing the levy on the basis of all the information available without unduly rejecting the lowest offer.

The advance fixing system

Consequences of advance fixing for the levy yield

3.72. As a result of its own production and imports of substitute products, the Community runs a surplus on cereals and, overall, there is no longer any real need to import except:

- for specific technical requirements which vary from year to year;

- for certain Community regions at certain times of the year (e.g. at the end of the common wheat marketing year in the United Kingdom).

The other imports are purely speculative. The drastic fall in imports over the years should be interpreted as a reassuring sign, proving that the possibility of speculation is extremely limited.

The advance fixing of the levy at the end of the marketing year does not give the operator a systematic advantage.

The reduction in the levy as a result of the price break between two marketing years reflects the corresponding reduction in the threshold price and the internal price at which the operator will be able to resell the imported cereals. In addition, because forward world prices for the new harvest are taken into account when the levy is fixed operators do not benefit unduly from a reduction in prices. The Commission may suspend the advance fixing of the levy in uncertain periods when there is a risk of considerable fluctuations in world prices, as was the case in summer 1988 (drought in the United States and Canada, sudden price movements).

The Commission cannot judge the estimated potential loss in revenue caused by advance fixing, which the Court puts at between 40 and 45 million ECU a year.

Evaluation of the advance fixing system

3.73 – 3.74. As regards the contradiction noted by the Court between observance of the threshold prices and the advance fixing of levies, it should be noted that the advance fixing of export refunds and import levies is an important aspect of market organization. If it were to be permanently abolished, Community operators would be unable to work in conditions which are considered normal or even indispensable in world trade.

The Commission has already taken the following measures to ensure that threshold prices are observed as closely as possible and to prevent abnormal speculation while allowing the normal play of commercial operations:

- The validity of import licences has been reduced from three months to 45 days.
- Higher securities are now required (16 ECU/t).

- Daily exchange rates are taken into account (rather than the weekly average) following the disruptive fluctuations of the US dollar.
- Advance fixing is suspended for limited periods in critical situations.
- The range of information which can be used has been extended, i.e. it is no longer limited to information supplied by the Member States alone but may include information obtained direct by the Commission.

Evolution of trade developments in cereals and cereal substitutes

3.76. The Commission agrees with the Court's analysis but would point out that the situation is due to international agreements concluded by the Community.

Conclusions

3.77. Explanations have already been given in the previous paragraphs about the more explicit file notes to substantiate decisions, the collection of information and the checking of calculations, which have already been improved.

The aim of the levy is to ensure that goods cannot be imported below the threshold price. In its day-to-day

decisions on the fixing of rates, the Commission will continue its policy of calculating the amount strictly necessary to achieve this in accordance with the rules.

MAKING AVAILABLE OF CUSTOMS DUTIES BY SPAIN AND PORTUGAL

3.78 – 3.80. After examining this question in the light of all the information available concerning the negotiations, the Commission decided not to pursue the infringement procedures against Spain and Portugal.

The Commission acted within its powers in taking this decision.

EXEMPTION FROM CUSTOMS DUTIES APPLIED UNILATERALLY BY MEMBER STATES ON GOODS OF MILITARY NATURE

3.81 – 3.84. The Commission agrees with the Court that special Community arrangements should be introduced for imports of military equipment. On 29 September 1988 it sent the Council a proposal for a regulation dealing with this matter ⁽²⁾.

⁽¹⁾ OJ C 255, 1.10.1988, p. 5.

⁽²⁾ OJ C 265, 12.10.1988, p. 9.

CHAPTER 4

**European Agricultural Guidance and Guarantee Fund,
Guarantee Section (EAGGF-Guarantee)**REPLIES OF THE COMMISSION**NATIONAL CONTROL OVER EAGGF-
GUARANTEE EXPENDITURE***Control of expenditure on intervention storage*

4.6 – 4.19. On these points the Commission would also refer to its replies to the Court's special report on the management and control of public storage.

4.6 – 4.7. As regards Community control of public storage operations, the Commission would recall that the management and financing system was adopted after long negotiations in the Council, which opted for a system in which the practical management arrangements are handled by the Member States' authorities. Financing is provided by the Community on the basis of a flat-rate arrangement in view of the differences between Member States' storage and administration practices.

In this Community system the Member States are responsible in the national context for the control and supervision of products bought in and stored and for their proper preservation (Article 2 of Regulation (EEC) No 3247/81).

In the procedure for the clearance of accounts, the Commission not only closes the accounts but also checks to see that the Community rules have been properly applied at national level. With the introduction of systems-based audits, a gradual improvement in management of this area can be expected.

Like the Court, the Commission is aware of the shortcomings in management and control by national authorities. It will submit the abovementioned special report by the Court on these matters to the Member States for discussion in an appropriate working party and will consider with their representatives what improvements can be made.

Control over quantities, quality and storage conditions

4.8 – 4.13. The organization of the control and supervision of stocks is a matter for Member States in view of their responsibility for the practical management of public storage arrangements. The methods applied correspond to the administrative structure in each Member State, since imposing uniform Community methods might cause some Member States objective difficulties from the point of view of the organization of their departments and would inevitably mean rules general enough to be acceptable to all and hence lacking in any structure.

**Member States' declarations of expenditure and
concluding remarks on intervention storage**

4.14 – 4.19. Community financing of public storage expenditure is based on presentation of a document equivalent to an invoice, as is the case with any other operation financed by the EAGGF Guarantee Section. This invoice must be backed by the supporting documents required by Community rules. Some figures are taken from the books of the intervention agency and others are additional calculations to determine the cost of the physical operations to be invoiced.

In addition, the nature of the physical operations which give rise to financing is such that the quantities of products bought in and sold (and hence stored) are provisional, based, for instance, on provisional acceptances pending the results of a quality control. On the other hand, the accounts, which are the basis for the arrangements, are those of the Member States and satisfy the appropriate national rules; they may not therefore be provisional.

Moreover, with the system of Community advance financing — either with advances proper or advances against amounts booked to the accounts — it has proved necessary to introduce a method for covering this expenditure in monthly instalments without in any way detracting from the annual nature of public storage expenditure. Consequently, the rules are not concerned with the final determination of expenditure for a given month but a calculation which makes it possible to enter in the accounts each month the public storage expenditure to be financed by the EAGGF.

These two observations lead to various conclusions, including the following:

- any 'laxness' in accounting practices cannot be dealt with by the Community arrangements but is a matter for the national authorities, which are automatically penalized in financial terms if quantities bought in and sold are recorded late;
- as regards paragraph 4.15, where the Court mentions risks of error, the Commission feels that the financial consequences, for which the Court gives no figure, would be minimal, over a full year, in relation to total expenditure.

The Commission would also point out that since Regulations (EEC) No 3183/87 and No 2048/88 introduced the system of advances against amounts booked to the accounts, these advances are now determined on the basis of declarations of actual expenditure sent in by the Member States.

Control over expenditure on export refunds

Preliminary remark

The Commission notes that most of the Court's comments relate to how national control procedures are carried out in practice. It has itself observed certain shortcomings in the refunds arrangements, in particular as regards the application of the procedures operated by the Member States. At the beginning of 1987 it sent the Council a proposal for a regulation on the monitoring of the payment of amounts granted on export of agricultural

products (COM(87) 9 final), a proposal which it subsequently amended (COM(87) 390 final). A regulation laying down detailed implementing measures will be produced as soon as the Council has adopted the first regulation. These matters have also been discussed with Member States' representatives.

Introduction

4.21. The nomenclature for refunds has to be detailed to ensure that refunds are not granted on products for which the level of aid does not require large amounts or on certain qualities of product. With the detail in the nomenclature it is possible to pay the refund in proportion to the basic products exported and not for flat-rate quantities. The nomenclature has therefore been made more and more specific over time as and when shortcomings were detected.

4.22. The amount of refund is identical for all countries in Africa with the exception of Botswana, Kenya, Madagascar, Swaziland and Zimbabwe. Zimbabwe and Botswana, which are neighbours of South Africa, are beef exporters enjoying preferential conditions. They regularly export to the Community under the EEC-ACP Agreements. Exports to these producer countries do not therefore qualify for refunds.

4.28. See the 'preliminary remark'.

Findings of the Court's examination

Controls over the export of beefmeat

4.33. See the 'preliminary remark'.

(d) Most beef for export is frozen at the time of export since this facilitates transport. However, veterinary and customs checks of frozen meat are very difficult; it is therefore almost essential that the meat should be controlled when it is fresh before the freezing has started.

Technically speaking, it is possible to thaw part of the meat at the frontier for control purposes. However, this meat is lost, because for health reasons it cannot be refrozen after control. The thawed goods cannot be

exported and the question of compensation for the commercial loss then arises. The Commission has taken note of the Court's findings and may discuss them with the Member States.

4.34. (b) – (e) These cases constitute fraud and the Member State should take appropriate action.

Controls over the export of live bovine animals

4.37. The Commission is aware of this case and is taking appropriate action.

4.38 – 4.39. The national procedures are being checked under the systems-based audit introduced for refunds since the 1982 accounts were cleared (see paragraph 4.85). Where it is found that Community rules have not been applied, corrections are made when the accounts are cleared.

Controls over the export of meat from male bovine animals

4.41 – 4.42. See the reply to paragraphs 4.38-4.39.

These cases constitute fraud, which must be dealt with under the appropriate procedures.

Verification of evidence of export

4.43. Where a document provided for at Community level (T5 control copy) is used as evidence that goods have left the Community customs territory, a retrospective control procedure exists under an administrative arrangement with the Member States (Chapter IX of the collection of arrangements, conclusions and interpretations concerning transit). The Commission feels that where national documents are used to provide this evidence a similar control procedure should be set up under the responsibility of the Member States. The Commission will bear in mind the Court's remarks when conducting its controls.

Controls over goods exported via the Community transit procedures

4.44. Under the Community rules in force containers or vehicles loaded with agricultural products subject in the Community to levies or equivalent charges on import or export, or enjoying financial advantages (refunds, premiums, etc.) must be sealed.

Member States have just recently been reminded that all such means of transport must in all circumstances be sealed. The Commission will use the opportunity offered by this report by the Court to make Member States aware of how absolutely vital it is that they see that these provisions are strictly applied.

Evidence of arrival at final destination

4.46. The purpose of Annex II to Regulation (EEC) No 3665/87 is to deal with cases where there is no import customs document in non-member countries. There is not always a customs document to satisfy the Community's requirements. Annex II is therefore an alternative which is preferable to presentation of any unspecified document. It must be signed and stamped by the importing customs authorities. Moreover the model is imposed by the Community and accepted in all Member States.

However, as a result of enquiries recently made by the Commission into matters including this document, the procedure may be reviewed.

4.47. The cases mentioned ought to be checked by the Member States before refunds are paid. Any such cases detected by the Commission during its controls are not accepted for Community financing.

(b) (iii) Superintendence companies of the type mentioned have been discussed within the Management Committee on Trade Mechanisms, and a working paper has been produced. Member States may approve such companies if they satisfy a number of conditions specified in the working paper; the list of approved companies must be published.

4.48. (a) Cases of false stamps being used to discharge transit movements or to forge customs documents are not infrequent. Article 5 of Regulation (EEC) No 3665/87 deals specifically with cases where fraud may be possible, and additional evidence must be demanded where doubts exist about the true destination of the product or about the import customs documents in non-member countries. Whenever the Commission learns that customs procedures in non-member countries are not reliable, it

informs the Member States by telex to ask them to demand the additional evidence referred to in Article 5 of the abovementioned regulation.

Controls over beefmeat taken into customs control under prefinancing arrangements

4.54. (a) Customs must check that declarations are true. If there is not enough time to carry out this check or if the customs officer is not convinced that the particulars in the declaration are true, he is entitled to refuse to sign the customs document.

(b) That is contrary to the procedure for export declarations.

(c) In this case the Community rules (Article 29 of Regulation (EEC) No 2220/85) have not been respected.

(d) The Commission has detected such problems during some of its controls and has made appropriate corrections when clearing the accounts.

(e) The Commission is aware of the shortcomings which may exist in the mutual assistance arrangements between Member States. It will see, with the Member States, how the necessary improvements can be made. As it stated in reply to the comment by Parliament in its resolution on the discharge in respect of the 1986 budget, the Commission feels 'that maximum publicity must be given to cases of fraud where the offenders have been convicted by national courts in order to prevent recurrences and to deter would-be imitators. However, the production of an official list of natural or legal persons convicted of fraud is a measure covered by criminal law, for which the Member States are responsible'.

Concluding remarks on export refunds

4.56. See the 'preliminary remark'.

4.57. The Commission is aware of the importance of this matter and has produced a working document on the assignment of forfeited securities; this document has been discussed in the EAGGF Committee.

Directive 77/435/EEC

4.62 – 4.75. The Commission attaches particular importance to the application of Directive 77/435/EEC. It will consider the possibility of stepping up action in this area as one of its priority tasks.

THE COMMISSION'S SUPERVISORY ARRANGEMENTS

Commission's monitoring of the Member State's systems for the day-to-day management and control of EAGGF-Guarantee measures

4.77 – 4.79. The EAGGF departments, working with the departments responsible for market management, monitor the application of the various measures at national level. The introduction of systems-based audits is designed to bring about an improvement in the situation. Because of the large amounts of expenditure involved in export refunds, the Commission chose this as the first sector for introducing systems audits.

Commission's monitoring of the implementation of Council Directive 77/435/EEC

4.80 – 4.82. The Commission would refer to its reply to paragraphs 4.62 — 4.75.

4.81. (b) There have been bilateral contacts with Spain and Portugal on the implementation of the Directive. The Commission will remind the two Member States to submit the necessary documentation.

(d) The Commission has had contacts with Member States when a problem has been raised.

(e) The Commission has contacted the Member States concerned where information in the annual report was not sufficient.

(g) The Commission would point out that the Irene data bank is still being developed. All information supplied by Member States is systematically fed into the system and processed by it.

Commission's clearance of accounts

4.83 – 4.84. With the clearance of accounts procedures applied under Community legislation, it is not possible at the present time to meet the deadlines set by the rules. The Council provided in Regulation No 2049/88 that the deadline for clearance of accounts should be inserted in Regulation No 729/70, to satisfy the request made by the European Council in Brussels on 11 and 12 February 1988.

4.85. The Commission will continue its efforts to improve the situation in this area, as it stated in its reply to paragraphs 5.26 — 5.44 in the Court's annual report for 1986.

The Commission would stress that it has now taken its decision on the clearance of the 1986 accounts and that this clearance exercise was carried out for the first time by means of the systems-based audit method for all products. As it is being introduced in stages, the Commission has given priority to the paying agencies; consequently it is possible that not all measures are audited.

AUDIT OF INDIVIDUAL MARKETS

Audit of the table wine market: private storage contracts and Community aids for the utilization of grape must

Private storage of table wine and of grape must

4.89. In exercising its powers, the Commission has, since the 1985/86 wine year, systematically reduced access to the price support guarantee distillation arrangements:

— 1985/86: 15 % of table wine production

— 1986/87: 13 %

— 1987/88: 10 %

The Commission's plan is to gradually reduce the volume of wine qualifying for these arrangements, which it can then eliminate in stages. The percentage for the 1988/89 marketing year is 7 %.

(c) The Commission made no further use of the restorage aid arrangements for the 1987/88 wine year.

4.90. As regards the cost to the budget, the amount of aid for storage of wine has not increased since the 1984/85 wine year.

The table below shows that the arrangements for private storage and price support guarantee distillation are being phased out:

Wine year	Storage million hl	Distillation million hl
1984/85	17,4	11,8
1985/86	14,6	9,5
1986/87	18,7 ⁽¹⁾	7,4
1987/88	15,4 ⁽¹⁾	7,2 ⁽¹⁾

⁽¹⁾ Including Spain with around 3.5 million hl for storage and 1.1 million hl for distillation. This means that for the Ten the quantities have been regularly falling.

Audit findings

4.91 – 4.92. Commission Regulation (EEC) No 1059/83 on long-term storage contracts stipulates as one of the conditions for the conclusion of a contract that particulars must be presented to enable the container to be identified. In addition an analyst's report must be supplied for each container. The producer must inform the intervention agency in advance of any change in the place of storage or in the manner in which the product is put up. These provisions are designed to make it possible to identify the product covered by a long-term storage contract at any time. Moreover, the Regulation states specifically that Member States 'shall take all measures to ensure that the necessary checks are made. In particular, they shall verify the identity ...'.

As the Commission had doubts about the effectiveness of the checks carried out by the Member States, in 1987 it began an investigation, which is still going on, asking the Member States to take samples of wine covered by long-term storage contracts.

4.93. As regards France and Italy, EAGGF controls conducted in connection with the clearance of the annual accounts have shown that systematic checks have to be carried out at the beginning and at the end of the period of storage. The samples taken are analysed by an approved laboratory and as a rule make it possible to verify the identity and the volume of table wine stored. In addition, relatively frequent, unannounced checks are made during the period of storage to identify the wine stored and to ensure that there has been no appreciable change in quality, that the wine is in fact still in store and that the conditions in which the wine is preserved and put up are satisfactory.

In France these checks are made mainly by the decentralized departments of the Director-General for Taxes. In Italy they are carried out by the Provincial Inspectorate of Agriculture, the Anti-fraud department and the Nucleo Anti-Sotificazione (NAS). The Commission feels that coordination between the national departments involved might well be improved.

4.94. Such a procedure would, of course, have undeniable advantages. However, the product stored is not stable and it can deteriorate if certain processes, e.g. filtration, are not performed at the right time. The seals would therefore have to be removed regularly and then put back. This means that additional staff would have to be assigned to these sealing operations.

4.96. Regulation (EEC) No 1059/83 does indeed provide that if 'there is an appreciable change in the quality of the product' the producer must inform the intervention agency without delay. However, under the second paragraph of the same article the intervention agency or any other inspecting agency is responsible for checking the quality of the product (and that there has been no appreciable change). In practice, such checks are made at the beginning, during and at the end of the storage period (see the reply to paragraph 4.93).

4.97. See the reply to paragraph 4.89(c).

4.98. The regulations adopted each year to allow the price support guarantee distillation arrangements to operate always specify that wine offered for this distillation must be the same wine that has been covered by long-term storage contracts. To be sure that this is the case, Member States must check the identity of the wine sent for distillation on the basis of the analyst's report drawn up when the storage contract is concluded. This check is difficult to carry out because of the characteristics of the product and the changes which can occur.

4.99. See the reply to paragraph 4.89.

Community aids for the utilization of grape must

4.100 – 4.106. In the Commission's view, aid for enrichment should be stopped. But this will not be possible until the economic discrimination between a producer not authorized to use sucrose and one who can use it has been brought to an end. The matter is now being studied as provided for in Article 20 of Regulation (EEC) No 822/87.

Audit findings

4.103. As regards aid for the utilization of must to be processed into grape juice, the controls conducted in France by the EAGGF departments in connection with the clearance of the annual accounts have revealed a great many anomalies in the management of this measure, in particular:

- incomplete or inconsistent processing declarations;
- in some cases quantities actually processed far below the quantities given in the processing declarations;
- inadequate national controls at all stages of the processing.

As a result of these irregularities the Commission disallowed the corresponding Community expenditure, amounting to around 13 Mio ECU (FF 93 million) between 1982 and 1985. As regards Italy, the system in force is considered generally satisfactory, but some isolated corrections have nevertheless been made.

4.104. The principles of accounting for EAGGF expenditure are that the Member State declare to the Commission only the amounts really disbursed or received and the budgetary accounts are drawn up on the same basis. Sub-accounts are used only where absolutely necessary and do not form part of the budgetary accounts. In this case, the statistical records maintained are quite adequate for the purpose.

4.106. Since the 1987/88 wine year the Commission has amended the arrangements for reducing the purchase price. The purchase price for wine sent for distillation is now reduced when the wine is enriched by the producer, without any reference to a maximum alcoholic strength.

MAIN CHANGES INTRODUCED BY THE COMMISSION SINCE THE PUBLICATION OF THE COURT'S SPECIAL REPORTS

Wine distillation measures

4.110. The Commission would refer to its reply to paragraph 5.52(c) of the Court's annual report for 1986.

4.111 – 4.114. In addition to the measures mentioned by the Court, it should be noted that the Council has recently decided, as a related measure in the 1988/89 agricultural prices package, to reduce substantially the price for all compulsory distillation referred to in Articles 35, 36 and 39 of Regulation (EEC) No 822/87.

ADMINISTRATIVE ARRANGEMENTS ADOPTED BY SPAIN

Audit observations

4.122 – 4.131. During the audit of the olive oil sector in Spain, the Court's observations regarding production aid for olive oil and olive oil intervention storage will certainly be taken into consideration.

As regards the wine-growing sector in Spain the various investigations undertaken by EAGGF-Guarantee departments in analysing systems in force have revealed that Spain has made major adjustment efforts to come into line with the Community rules applying in the wine-growing sector.

4.123. (a) The Commission recently found that the production declarations made by table wine producers are systematically checked by the official of the Jefatura Provincial who is responsible for the area concerned. He

also carries out unannounced, on-the-spot inspections at the biggest cellars or at the producers about whom doubts may exist.

The next stage of control is handled by the territorial inspectorate, which is concerned especially with quantities of wine declared, and the anti-fraud department, which is required to check all cellars each year.

(b) The investigations of the EAGGF-Guarantee departments in the wine sector have highlighted the coherence of the system for managing and controlling the various Community measures, subject to certain improvements which can be made notably in the coordination of the various administrative departments involved. On this point the Spanish authorities have undertaken to change the system in line with the recommendations made by the EAGGF departments.

4.124. (a) The comparison of the information provided by the crop declarations and by the milling declarations will be easier once the computerized files of olive cultivation data provided for by Regulation (EEC) No 3061/84 are operational.

(b) See the reply to paragraph 4.123(a).

4.125. See the reply to paragraph 4.123(a).

4.126. Once the control agency provided for by Regulation (EEC) No 2262/84 is operational, the problem of the coordination of controls in the olive oil sector should be resolved. Meantime the Commission will urge Spain to improve the coordination of controls. See also the reply to paragraph 4.123(b).

4.129. As producers' organizations were set up only gradually, in 1987 the controls were still carried out by the central authorities.

4.130. The Commission will act on the Court's comments.

4.131. The prospects for sales at a price in excess of the intervention price which seemed likely in April 1987 did not materialize in the subsequent months because of the arrival of a record harvest at the end of 1987.

GENERAL CONCLUSIONS

4.132 – 4.133. As regards public storage, the Commission would refer to the undertaking it gave in its replies to the Court's recent special report, to put the Court's observations to an *ad hoc* working party in order to analyse with the Member States how to make the improvements which it too considers highly necessary.

As regards export refunds, the Commission made proposals to the Council at the beginning of 1987 which would tighten up controls considerably.

With the means at its disposal, the Commission endeavours to supervise operations which Member States are responsible for managing. Systems-based audits will, for instance, make for improvements in this field.

CHAPTER 5

**European Agricultural Guidance and Guarantee Fund, Guidance
Section — (EAGGF-Guidance)**

REPLIES OF THE COMMISSION

**APPLICATION OF MEASURES TO
IMPROVE THE CONDITIONS UNDER
WHICH CEREALS ARE STORED AND
MARKETED (REGULATION (EEC) No
355/77)**

The financial resources of the EAGGF Guidance Section for assistance under Regulation (EEC) No 355/77 are determined each year in the budget and are insufficient to cover all projects which have been submitted. Hence the investments which qualify under the programmes (over 15 000 Mio ECU), obviously far outstrip the financing possibilities and so it will always be the case that only some of the investments provided for in the programmes can receive Community aid.

General

(a) The Commission is aware that some programmes have not quite achieved the expected results.

Although the Commission shares the Court's concern and admits that the operation has not been without its imperfections — especially in the first phase, which ended in 1984 — it cannot agree with the way in which the Court, in its analysis, interprets Regulation (EEC) No 355/77, especially with respect to programmes.

The type of programming envisaged by the Regulation is not to do with strict 'planning' but rather setting guidelines and a framework for investments. Operators, whether cooperatives or individuals, are therefore at liberty to follow or to ignore these indicative programmes, though they can only receive assistance if their investments fit in with the programmes' objectives. Clearly, in a free market economy, Member States cannot force the programmes on operators, and this makes it difficult to speak in terms of their 'execution'. The idea of 'execution' must refer to eligible projects identified within the programmes.

As far as the content of the programmes is concerned, the Court is critical of the fact that the Commission approved certain programmes even though they are designed to increase production. In the Commission's opinion, the purpose of the programmes is not primarily to set production targets or to prohibit certain developments in terms of production, but to provide an accurate analysis and forecast of production levels and of the need to adapt marketing resources to market requirements on the basis of the data available when the programmes are being prepared. The Commission also takes account of the market situation when deciding on the selection criteria for the projects to be funded.

(b) The Commission is, however, aware that the rules need to be geared more closely to present requirements as regards planning and coordination of structural operations. It has presented new proposals to the Council and Parliament as part of the reform of the structural Funds. ⁽¹⁾ It will heed the Court's remarks when submitting proposals or adopting provisions in this field.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

Purpose of the investigation

5.3. The Commission would point out that cereals account for around 14 % of total final agricultural output.

Problems relating to specific programmes and their objectives

Objectives and approval of specific programmes

5.11. (a) In the Commission's opinion, the programmes in question could, in 1986 and 1987, merely reflect the upward trend in production, even if this was an undesirable trend. Moreover, in the French and German programmes, which the Court quotes in its observations, the increases envisaged are slight (e.g. France 1984/85: 57,8 Mio t; 1990: 58 Mio t, or approximately 0.3 % spread over five years) and the case in support of planned investments is based not so much on this increase but on the need to adopt marketing resources to market requirements.

(b) The Commission is constantly asking the Member States to supply more detailed information, but it must admit that the information provided is often unsatisfactory.

Monitoring of the implementation of the programmes and their effects

5.12. The Commission undertakes the programme monitoring necessary to check whether applications for assistance fit into the programmes. Statistics on the investments approved by the Commission are available for this purpose.

Implementation of funded projects is monitored more closely by the Commission and the responsible national authorities together. For the purpose of vetting subsequent programmes, the Commission insists on being given adequate information on the execution of completed programmes.

The reports which must be submitted for all projects two years after the last payment are another noteworthy source of information about the results produced by funded projects.

Duration of the programmes

5.13. It should be noted that the Regulation also specifies that the Member State, at the end of the initially stipulated period, can submit an addendum or a new programme, which may entail an additional period. The real object of the 'three to five years' rule is not to limit the duration of programmes for some obscure reason, but to ensure that a review of the situation in the sector is carried out, three to five years on, to take account of any changes that have occurred in relation to the situation on which the programme was originally based. The addenda submitted by the Member States ensure that this is done.

Low rate of programme completion

5.14. As stated in the 'General' section, it is difficult to talk in terms of 'execution' of programmes. Moreover, a great many investments are undertaken outside the programmes or without any financial contribution from the Community.

5.15. For instance, the 50 000 t of storage capacity created in France over the 1981-85 period refers only to what was financed by the EAGGF; the overall total constructed there in that period was 5 Mio t.

5.16. The addendum to the Greek programme for 1985-88 is still being implemented. At 31 December 1987 12 projects had been funded for a total capacity of 54 000 t. Then on 30 April 1988 the Greek Government submitted other projects for a total capacity of 95 000 t.

Problems connected with projects financed by the Commission

Capacities used for intervention

5.18. The project in question was submitted to the Commission with a favourable opinion from the re-

sponsible Italian authorities. The Commission was unaware of the opposition of the regional authorities, and it did not receive any unfavourable opinion. Following the Court's comments, the Commission has asked for further information from the Italian authorities.

As regards the facts of the matter, it would seem reasonable to support private individuals as well as cooperatives if, at the proposed location, local production levels are such that storage capacity is required. The fact that the recipient possesses other warehouses with intervention stocks is of no relevance to the assessment of the need to create new storage capacity. It should be added that intervention is a Community instrument which is partially dependent on the use of private warehouses.

With respect to the principle of Community-assisted capacities being used for intervention storage, the Commission shares to some extent the Court's reservations. In fact an appropriate restrictive clause has been applied in cases involving regions where it was feared such a situation could arise.

In reality, however, these are complex situations because:

- the creation of capacities which may be used for intervention is not in itself an encouragement to send cereals for intervention, the decisive factors being market conditions and the policy of the cereals market organization,
- the existence of additional capacities makes for a healthier market situation, which ought to reduce pressure on operators to offer goods for intervention.

5.19. In Schleswig-Holstein, a region where production exceeds regional consumption, the aim was to improve conditions for marketing cereals and thus to reduce the scale of intervention. However, intervention warehouses are still required and it is true that the recipients referred to (who have other warehouses which were not assisted by the EAGGF Guidance Section) are recognized as storage centres and carry out intervention operations if they have capacity available.

The main point, however, is that the assisted installations should be available to store quality cereals at harvest time, and the German authorities have stated that this is the case. The German authorities had given exceptional authorization to one of the firms to use the new

warehouse to store cereals from the 1984 harvest which could not be disposed of because of the market situation and which therefore had to be taken into intervention on the express condition that for the contract products, capacities be released for the harvest period.

As a general rule, however, the intervention authorities in Germany (BALM), in agreement with the *Land*, have prohibited the use of assisted centres for intervention purposes.

5.20. The storage capacities financed by the Community were designed to meet regional structural requirements which will continue to exist in the foreseeable future.

Observance of project selection criteria

5.23. (a) The Antwerp project is indeed mainly for the storage of cereals (barley). However, malt is also stored, this not being formally ruled out by the criteria. It should be added that the assistance granted to this project was well below the maximum permitted by the Regulation to take account of the fact that the investments are not used exclusively for what the Commission considers to be priority aims.

(b) and (c) It is true that from 1979 to 1983, when the criteria were first applied, the interpretation had been more flexible in that only processing plants themselves were excluded, but not the storage of cereals for the plants. It was during this period that funding was given to the three projects referred to by the Court which concerned storage installations for cereals for milling. Since 1983, however, the Commission has been applying the stricter interpretation advocated by the Court.

Limited technical performance of certain storage projects

5.24. It is true that the silos in Apulia and Basilicata are relatively basic investments. However, they are able to take the cereals produced by the members of cooperatives in question and provide primary storage. The products can then be marketed in an orderly manner, something which was impossible previously. The investment is therefore very useful.

Plants 'with a higher performance level' are more expensive and some cooperatives therefore restrict themselves to these preliminary installations in order not

to have to assume the heavier financial burdens. Moreover, even with just these basic plants, the cooperatives obtain higher prices than they would if they had to sell their produce themselves at harvest time. Producers' costs would also be higher without these installations because of long journeys to the points of sale.

Furthermore, in certain situations involving structural difficulties, it is not a good idea to try and resolve all the problems at once, and the Commission feels that it would be unfair to refuse these regions assistance for the proposed improvements and thus do nothing about the existing structural deficiencies.

Use made of the financial reports provided for under Regulation (EEC) No 355/77

5.26. The Commission would point out that not only are these reports systematically analysed, they are also available to the rapporteurs for the countries concerned who are kept regularly informed about them.

Shortcomings in the accounts and other irregularities

5.27. The Court's observations concerning payments are partly justified, although the shortcomings referred to cannot be defined as irregularities, since they do not compromise the proper execution of the projects.

(a) As far as the Belgian project is concerned, it should be noted that the rules do not require a file of invitations to tender to be included among the supporting documents. The recipient of the aid was therefore under no obligation to keep one or to submit it to the Community authorities.

According to the Commission's findings, the accounts conform to the rules. The information required by the Court can be found by analysing the 'trade accounts payable'.

Some problems arose because the main supplier went bankrupt. However, all the supporting evidence was finally provided.

(b) The practice, which exists not only in Greece, of paying by instalments as the work progresses, especially if a single contractor is responsible for all the work, does not, in the Commission's opinion, present any drawbacks if it can be ultimately established that the work carried out corresponds to the work described in the estimate.

It should also be noted that the cereal storage projects are not very complex investments for which more detailed invoices might be needed to check that the work has in fact been done as planned.

As far as the dates of invoicing and payment are concerned, the Greek authorities have already issued an instruction to see that the practice detected by the Court is stopped.

(c) The Commission has found that the differences between national accounting practices impose limits on the degree of standardization which can be attained.

Special problems relating to port silos

Introduction

5.29. The purpose of the investments is to improve the structure of the cereals market by making access to the world market easier for those producing regions which do not have adequate infrastructure. During the period of expansion in export outlets for cereals, the construction of port silos contributed indirectly to supporting prices in the regions concerned, thus benefiting farmers and reducing the amounts of produce sent into intervention. Furthermore, silo operators are often associations of farming cooperatives.

Observations

Lack of coordination in the adoption of port silo projects

5.33. According to the Commission's information, the investments financed under the Belgian programme for port silos (the only programme mentioned by the Court) do not pose any problems as regards capacity utilization. Trade flows have indeed changed over the years, but this has not always been away from the Belgian ports.

In approving the Belgian programme, the Commission took a decision based on Community criteria which do

not require that a Member State's products be necessarily exported through its own ports when ports in other Member States are more easily accessible from the areas of production or are better equipped. The Commission does not think that the results achieved can cast any doubts on the wisdom of its decision.

Limited results of programmes

5.34. See the 'General' section.

5.35. The observation that the incentive effect is less obvious if the investment forms part of a larger whole is valid in theory, but there is no reason to conclude from this that financing should be refused in sectors where appropriations available from the EAGGF Guidance Section are insufficient to assist all the investments. It is possible to influence trends in the sector even with financing of isolated projects.

Lack of systematic inspections

5.36. In 1987 the EAGGF Guidance Section received 1.578 requests for payment for direct-action operations (project financing), and disbursed 285 Mio ECU.

It is clearly impossible to carry out systematic on-the-spot inspections with the staff available. This would necessitate not only a substantial increase in staff numbers, but would also be contrary to the principle of decentralization of responsibilities laid down by the rules. Under the Regulation responsibility for inspections lies primarily with the authorities designated for this purpose by the Member States.

Direct inspections conducted by the Commission are essentially concerned with the systems applied by the Member States, and they involve a number of examinations of individual cases. On-the-spot inspections are carried out when a request for payment brings to light specific problems or irregularities which make an inspection essential.

Conclusions and recommendations

5.37. The Commission appreciates some of the comments made by the Court. However, it feels that some decisions, especially those concerning port silos, were taken in circumstances far different from the present situation. The selection criteria applied by the Commis-

sion now exclude port silos connected with international trading except in specific, duly substantiated cases of silos which are essentially intended for the export of Community cereals.

5.38. See the reply to paragraph 5.11(b).

5.39. See the 'General' section.

5.40. See the replies to paragraphs 5.29 and 5.33.

5.41. As far as the execution of programmes is concerned, it should be noted that each rapporteur is provided with lists of approved projects which can be used to check whether programme aims are being observed.

With respect to the observation that assisting capacities which are subsequently used for intervention purposes 'entails Community expenditure twice over', the Commission's policy has never been to finance capacities which would depend on intervention storage for their viability. The Commission would stress that the storage capacities created are not normally used for intervention purposes (see also the replies to paragraphs 5.18 and 5.19).

5.42 – 5.43. As part of the reform of the structural Funds, it is planned that provisions concerning the monitoring and evaluation of implemented measures will be greatly reinforced.

OBSERVATIONS RESULTING FROM THE SPECIAL REPORT ON COMMUNITY AID FOR THE ACCELERATION OF AGRICULTURAL DEVELOPMENT IN GREECE

5.44 – 5.50. Although the Court's general comments are largely founded, emphasis needs to be laid on the context in which EAGGF Guidance Section operations in Greece took place.

When Greece joined the Community in 1981, the Commission was able to see how far development was lagging behind, particularly in the least favoured agricultural areas. At the beginning of 1982 it therefore proposed a wider-ranging package of measures to deal with the problem. The programme was an innovation both for the Community and for Greece. The only comparable operation was the agricultural development programme in the less favoured regions of the west of

Ireland provided for in Regulation (EEC) No 1820/80. ⁽²⁾ However, implementation of that programme had barely begun and so it could not serve as a useful guide.

Since then, the Commission has proposed and the Council has adopted the legal framework for the implementation of the integrated Mediterranean programmes. This framework will replace the traditional-type measures which this report is concerned with, as and when they expire.

There is therefore reason for hoping that the greater flexibility provided by this framework and by the provisions for technical assistance and monitoring, will dispel some of the Court's misgivings.

Moves in the direction recommended by the Court should then continue with the reform of the structural Funds. Following this reform, the Commission intends to establish genuine partnership with the national and regional authorities for devising and executing measures of this type.

⁽¹⁾ COM(88) ('Vertical' EAGGF Guidance Section Regulation).

⁽²⁾ OJ L 180, 14.7.1980, p. 1.

CHAPTER 6

The European Regional Development FundREPLIES OF THE COMMISSION**EVALUATION OF THE IMPACT OF INFRASTRUCTURES***Introduction*

The Court's attempt to evaluate the impact of ERDF assisted infrastructures on regional development is an appreciable contribution to the preparation of an *ex post* evaluation methodology that the Commission is endeavouring to develop in connection with the reform of the structural Funds currently being examined within the Council and Parliament.

To evaluate this impact the Court has sought, by means of questionnaires and on-the-spot investigations, to determine, on the basis of gross utilization rates of infrastructures, the 'net' utilization rate in order to measure the net effect for the regions concerned. It has tried to apply this method systematically to different categories of infrastructure and within each category to a sample of ERDF-assisted investments.

The Court's work is an enormous and valuable contribution to thinking on this matter about which the Commission is similarly concerned.

METHOD USED FOR ANALYSING THE UTILIZATION OF SUBSIDIZED INFRASTRUCTURES

6.5 – 6.12. (a) The Commission is aware of the importance of *ex ante* and *ex post* evaluation of the

operations of the structural Funds in their role of strengthening economic and social cohesion which, in addition to the completion of the internal market, is one of the objectives for the Community set by the Single European Act.

It is clear that *ex post* evaluation of the effectiveness of structural operations carried out by the Commission becomes feasible only if there is effective *ex ante* assessment. One of the Commission's proposals to the Council for the reform of the structural Funds, made in response to its new obligations, was for greater attention to be paid to *ex ante* and *ex post* evaluation of structural Fund operations in order to enhance their effectiveness in promoting economic development.

(b) As regards *ex ante* assessment, it should be remembered that it is only since the 1984 revision of the ERDF Regulation that applications for assistance relating to infrastructure investments of 15 Mio ECU or more must include the results of a suitable socio-economic cost benefit analysis.

While it is true that this requirement has helped — for major projects at least — to improve the quality of the information on which an assessment can be based, *ex ante* assessment will be strengthened by the reform of the structural Funds with the establishment, by means of genuine partnership at local, regional, national and Community level, of Community support frameworks which should produce plans setting out in advance the development strategy for the regions or areas concerned. These plans will ensure that there is overall consistency — notably as regards the objectives to be attained — between all operations eligible for ERDF assistance, whether they be in the form of programmes of operations, aid schemes, major industrial or infrastructure projects or operations for local development initiatives. The aim is to ensure in advance that ERDF operations will be a success

and hence that effective use will be made of the resources provided by the ERDF in its role as an instrument of economic development.

This strengthening of the programming approach which, by definition, is an *ex ante* aspect and which the Court has looked at as a way of improving the effectiveness of infrastructures, should result not only in clearer objectives being set for infrastructures but also a better balance being established between infrastructures — which are a vital but not, by themselves, sufficient condition for regional development — and the development of productive investments and indigenous potential.

(c) Clear *ex post* evaluation arrangements have been set out, for the first time, in the proposals for regulations sent to the Council in connection with the reform of the structural Funds.

The Commission is working on methods for applying this *ex post* evaluation at three levels: macro-economic impact, notably in strengthening economic and social cohesion; impact of the action in each Community support framework; and micro-economic impact of operations such as programmes and projects.

(d) The Court's analysis is undoubtedly a major contribution to thinking on this matter.

The Court states in paragraph 6.12 that the method of evaluation used was geared solely to determining the utilization rate of ERDF assisted infrastructures so that their impact on regional development could be assessed, and stresses that no cost benefit analyses or studies of alternative projects were made.

While the utilization rate is an important reference factor for measuring the impact of an infrastructure on the development of a region, it must be borne in mind that the establishment of a basic infrastructure network is a long-term process and a degree of under-utilization can, at the outset, be considered acceptable, as the Court in fact states (paragraph 6.10). The Commission feels that infrastructures must exist before the development process can begin and economic activities be attracted to the region, but that the utilization rate will frequently be very

low to start with and that marked under-utilization may continue for a relatively long initial period.

This is especially true for major structures such as a bridge or a dam, which for technical reasons cannot be divided up and cannot therefore be carried out below a minimum threshold. But even for structures which, from a technical angle, can be divided up — for instance a road, which can subsequently be widened as the volume of traffic gradually increases — the cost-benefit analysis should take into account the possible advantages of not producing an infrastructure below a minimum size and of providing a road with a capacity to cope with foreseeable increases in traffic in the long term.

In the evaluation of the impact of infrastructures, account should also be taken of the knock-on effects — which admittedly are hard to measure — for overall economic activity in the region.

While there is a good case, in an impact of evaluation, for endeavouring to calculate the net effect for the region, allowance should also be made — even when there is no increase in utilization — for the improvements in the quality of the public service supplied to all users — i.e. both present users and future users, such improvements being measured in terms of productivity gains and hence in the greater competitiveness of the region.

For instance, an evaluation of the impact of a new urban by-pass giving access to a port should take into account not only the net utilization rate, but also the knock-on effect for port activity resulting from easier access, and the benefits of the new road in terms of time, and hence money, and in terms of road safety for ordinary traffic using both the new road and the decongested old road. In other words, if at a given time the 'net' utilization rate for the new road is 25 %, it is wrong to conclude immediately that the impact of the new infrastructure is not significant. At most this rate could be compared — with due allowance for any other specific features — with the utilization rate for infrastructures of the same type.

(e) In the economic development effort to which the ERDF has to contribute, infrastructures will no doubt continue to predominate in view of the vital role they play in this development.

The value of the work done by the Court with a view to improving effectiveness can best be appreciated against the background of these considerations. The Commission shares the Court's interest in this matter. The method of infrastructure evaluation used by the Court is worth

pursuing further. The Commission hopes to derive maximum benefit from the Court's method when it comes to consider the establishment of an *ex post* evaluation methodology currently being prepared.

RESULTS IN TERMS OF THE UTILIZATION OF INFRASTRUCTURES

6.13 – 6.58. In the light of the above, the Commission feels that the best way of replying to the Court's remarks on the many individual cases mentioned is to group together its replies by type of problem rather than by category of infrastructure. It is no problem for the Commission to supply, where appropriate, all the information which prompted it, when granting ERDF assistance in individual cases, to make a positive assessment of the expected impact of the infrastructures financed.

As regards the link between utilization rates observed or certain infrastructures and the quality of programming, the Commission is quite prepared to acknowledge that in a number of cases financed by the ERDF, the present utilization rate — which is only one of the factors involved in what must be a comprehensive evaluation of the impact of an infrastructure on the development of a region — is low. It feels that the new approach following the reform of the Funds — namely more highly developed programming — will mean that more consideration can be given to the development of the economic context of the infrastructures receiving Community assistance.

It should thus be easier to spot cases of competition between the infrastructure to be built and similar installations already existing in the surrounding area, as for instance in the case of the Bettembourg container terminal in Luxembourg (paragraph 6.16); it should also be possible to make allowance for competition from other modes of transport as in the case of the canal du Midi in France (paragraph 6.32), the use of which is affected by road and rail transport.

If economic forecasts in the sector concerned are properly taken into account, it is certainly much easier to select infrastructures which are more likely to increase econ-

omic development. However, predictions can sometimes be difficult. For instance, a number of investments mentioned by the Court were affected by the backwash from the oil shocks, which could not have been foreseen. This was the case with the road to the port of Eemshaven in the Netherlands (paragraph 6.15) and the roads in Limburg. Moreover, in view of the economic context of the period in which most of the infrastructures in question were programmed, the average utilization rates found by the Court for certain infrastructures (e.g. ports, inland waterways and hydraulic infrastructures) can be considered acceptable.

A coherent management framework also helps to ensure that resources are properly used. However, in practice, it is very difficult to determine in advance an infrastructure specialization system, especially in regions where these infrastructures are inadequate, as is the case with the small Adriatic ports (case of Termoli, paragraph 6.24).

It is true that the priority aim of ERDF assistance is to support investments which will speed up the growth of the regions receiving aid. However, the Commission feels that in striving for this objective account must also be taken of the socio-economic characteristics of the regions. It is essential, for instance, to give preference to investments (generally low-cost) designed to provide access to an isolated region and to prevent depopulation. This must be borne in mind in any assessment of the country roads in Molise (paragraph 6.21). The same applies to examination of any cases in which the investment is designed to achieve better utilization rather than greater utilization. An example is the Alès by-pass in France (paragraph 6.19), which was designed to improve the flow of transit traffic and to reduce congestion in the town centre. The Commission also feels that improvements in the quality of infrastructures and the construction of installations to improve security of supply are essential, because in the long term these investments help to speed up the development process and play a vital role in halting the deterioration in the economic situation; this was the case, for instance, with the power station in the Shetland Isles (paragraph 6.45).

The utilization rate for certain infrastructures is frequently low because of financial difficulties which force the public authorities to sub-divide an infrastructure project into a number of lots to match the funds available. Examples of this are the construction of certain port installations (paragraph 6.24) and to a large extent

the major delays in completing the hydraulic complexes in Sicily (paragraph 6.36).

Institutional and political changes can also be the source of partial completion and hence of unsatisfactory utilization of infrastructures: the Sinni and Locone hydraulic complexes in the Mezzogiorno in Italy have for years, like a large number of other infrastructure projects in the same area, been held up by the closedown of the Cassa per il Mezzogiorno and the difficulties in applying the new law (64/86) on which Italian regional policy in the Mezzogiorno has been based since 1986.

As regards the remarks on the link between certain water collection and treatment plants and economic activity, it must be pointed out that water supply difficulties and the problem of sewage pollution are major obstacles to the economic development of the Mediterranean regions. This undoubtedly applies in the cases in the Mezzogiorno mentioned by the Court.

As regards the impact of ERDF assistance on the construction of telecommunications infrastructures, it should be noted that ERDF aid has had a very important support function for such investment in certain countries, notably Ireland and Greece, and in others it has been used by the Commission as an incentive for investors to bring forward their infrastructure investment plans. This was the case with the SIP which carried out additional investments in the Mezzogiorno not initially included in the group's investment plans.

EFFECTS ON PRICES AND WAYS OF MANAGING INFRASTRUCTURES

6.59 – 6.67. As regards the effect of regional aid on prices, the Commission agrees with the Court that a reduction in prices can stimulate demand and increase the utilization rate. It feels, however, that in the less-developed areas the major obstacle to demand is a lack of service rather than an unduly high price.

The Commission is also of the opinion that a differentiated pricing policy as an incentive to demand may lead to the price of services being set with virtually no reference to any economic calculation, which would be equally negative.

The Commission also agrees with the Court that in future criteria should be established for modulating the form and intensity of Community financial assistance. This has in fact been catered for in the reform of the Funds, with provision being made for a combination of EIB loans and ERDF aid for certain types of infrastructure and also for modulation of aid rates.

SPECIAL REPORT ON THE INTEGRATED APPROACH TO COMMUNITY FINANCING OF STRUCTURAL MEASURES

6.76 – 6.84. The Commission would refer to the replies to the abovementioned special report. In particular:

- without denying the difficulties of this approach, the Commission has always seen integration as a means of improving the effectiveness of the Community's structural action;
- the problems found by the Court are in reality attributable essentially to the fact that the operations examined were experimental and that Community structural action is very complex;
- analysis of the integrated approaches introduced more recently would show that:
 - the 'historical' experiments with the integrated approach have been beneficial for launching IDOs and IMPs: the 20 or so IMPs launched in the last two years and the 10 or so IDOs would be considered satisfactory on most of the counts criticized by the Court;
 - the reform of the structural Funds, once applied, should be beneficial for the integrated approach: not only will the broad lines of this reform facilitate the operation of the various structural instruments, but in addition the horizontal coordinating regulation will remove certain obstacles currently hampering the application of integrated programmes.

CHAPTER 7

European Social FundREPLIES OF THE COMMISSION**INTRODUCTION**

7.1 – 7.3. In its replies to special report No 1/88 on national and Community management systems and procedures⁽¹⁾ the Commission acknowledged that in many instances the Court's comments were justified. In the introduction to its replies it set out some of the measures already taken — for example, increased resources for departments responsible for management, accounting and controls — and some of the results already achieved in the field of financial and budgetary management of the Fund, such as a significant reduction in the 'burden of the past' and a considerable improvement in the implementation of the budget since 1986. It was also pointed out that a fundamental change in the effectiveness of the Fund's operations could not be expected until after the reform of the structural Funds had been carried out in accordance with Article 130d of the EEC Treaty.

Subject to these reservations and without repeating replies already given, information further clarifying the Commission's position in the light of the progress made in the reform of the structural Funds is given below.

**NATIONAL AND COMMUNITY SYSTEMS
AND PROCEDURES RELATING TO THE
MANAGEMENT OF THE EUROPEAN
SOCIAL FUND**

*Main weaknesses noted and possibilities for
improvement*

7.5 – 7.6. On a proposal from the Commission and after obtaining the opinion of Parliament and the Economic

and Social Committee, on 24 June 1988 the Council adopted Regulation (EEC) No 2052/88 on the tasks of the structural Funds and their effectiveness and on coordination of their activities between themselves and with the operations of the EIB and the other existing financial instruments. In accordance with Articles 130a and 130c of the EEC Treaty this Regulation defines or clarifies a number of concepts. With regard to the points raised by the Court, particularly in its conclusions to special report No 1/88, the concepts defined in this Regulation mainly relate to the following:

- the priority objectives which the ESF must help to attain;
- the type of operations the fund can support;
- the categories of persons eligible for ESF assistance;
- a five-year projection of the overall resources needed for the contributions from the structural Funds and their concentration;
- the principles of complementarity and partnership, plus, where necessary, appropriate technical assistance operations carried out in agreement and in close cooperation with the Member State(s) concerned;
- part-financing, supplemented by differentiated rates of assistance depending on criteria which do not rule out Community financing for operations normally covered under national systems;

⁽¹⁾ The footnotes are listed together at the end of the chapter.

- forms of financial assistance, with specific provision for financing of programmes rather than individual projects (which should lead to a reduction in the number of files to be dealt with each year by the Commission, despite the increase in resources and hence in operations);
- evaluation systems designed to gauge the effectiveness of Community operations in relation to the objectives pursued; this will be done in macro-economic terms incorporating data on labour market developments (with particular reference to programme management).

The Commission therefore notes with satisfaction that many of the issues raised by the Court in its annual and special reports have been dealt with in the legal instruments and solutions that have since been adopted.

7.7 – 7.9. As regards the Court's comments on management at Community and Member State level, the Commission would refer to all the replies already given in special report No 1/88 on national and Community systems for the management of the Fund. It should be recalled that the process of reforming the structural Funds did not end with the adoption of Council Regulation (EEC) No 2052/88 and that it is continuing with the examination of two other draft Regulations, one 'horizontal' and the other laying down specific provisions for the European Social Fund (2).

The Commission shares the Court's concern about management and it pays very close attention to verification aspects. In this connection, the Commission decided in September 1987 to set up an anti-fraud coordination unit. A team with the same function will be constituted as soon as possible in the Directorate-General for Employment, Social Affairs and Education.

PREPARATORY STUDIES AND PILOT SCHEMES

7.10 – 7.13. The Court's comments refer to a system which was largely revised in the 1984 Regulation because of its operational shortcomings, even though subsequent commitments have had to be taken into account until 1988. In financial terms this sector accounted for only 0.3 % of the Fund's total budget, which the Commission had to bear in mind when allocating the funds earmarked for these schemes.

Many of the difficulties encountered were due to the sharp increase in the number of projects submitted to the Social Fund, which compromised the monitoring and management of individual projects.

In the case of the pilot schemes the situation was further complicated because the Member States' responsibilities were not clearly defined and some small private beneficiaries had great difficulty in bringing their projects to a successful conclusion.

Many of these problems have been settled by the amendments brought in since 1984. Despite the system's imperfections, it seems both from general reactions and from discussions in the Social Fund Committee that the pilot schemes have produced positive results at a very modest cost.

Rate of utilization of payment appropriations

7.14 In July 1988 10 pilot schemes (3 % of the total approved) had still not been concluded. These are all cases where recovery orders have been issued but the promoters have not yet made the repayments.

Selection

Eligibility

7.15. It has always been the Commission's practice to limit the number of jobs to 30, in accordance with Regulation (EEC) No 2396/71.

Priority

7.16 – 7.18. When there were more appropriations available than eligible applications, as was the case in 1983, the priority criteria automatically became redundant. When, however, there were more eligible applications than appropriations available, the priority criteria were applied.

7.19. The Commission has always considered that the expression 'innovatory character' should be interpreted

pragmatically and that to attempt to devise a precise definition was neither necessary nor desirable. The lack of a definition has caused no practical difficulties.

Decision and implementation

Contract

7.20 – 7.25. It is true that some promoters began operations without awaiting the Commission decision, in the knowledge that their project was included in the draft decision presented to the Committee.

Furthermore, it was quite customary as with other Social Fund projects for amendments to be made to the Commission decision when significant changes were requested. With the pilot schemes, the amendments were normally included in the contract and in general the contracts gave a basic outline of the projects. None the less, the contracts system was abandoned, as the Court states, at the time of the 1984 review.

The Commission is aware of the difficulties encountered and has therefore decided to drop individual project management in favour of programme management.

Interim report

7.26 – 7.28. The main purpose of the interim report was to provide proof that the project was under way. Whenever the content of an interim report raised questions of substance, the Commission did not fail to carry out the necessary inquiries.

Final report

7.29 – 7.30. The Commission found that the only practical method of making the promoter fulfil his obligations within the deadline was to make final payment subject to production and approval of the final report. If the final report was not considered satisfactory, payment was suspended until any shortcomings were corrected.

The Court's findings

7.31. See the replies to paragraphs 7.39 — 7.44 and 7.55.

Financial statements

7.32 – 7.33. In practice, payments have been made as follows: the promoter was required to present an itemized statement of expenditure for which reimbursement was requested; if there were any doubts, further information was requested; in addition sample, on-the-spot checks were conducted by the Commission.

In any event, it was made quite clear to the promoters that revenue from the operation must be deducted in the calculation of the amount eligible for assistance from the Fund.

Closure of files

7.34 – 7.35. These difficulties were inevitable in a system in which the Member States' joint responsibility was not clearly established. So far the Council has rejected the Commission's attempts to draw up provisions concerning the interest that could be charged on undue payments.

Expenditure not borne by the contractor and excess funding

7.39 – 7.44. The Commission has re-examined the cases referred to by the Court. In the vast majority of them, the expenditure proved to be justified. As a result of information provided by the Court in a management letter the Commission has already recovered one payment and will open repayment procedures in another case cited by the Court (paragraph 7.41).

Circulation of final reports and results

7.45. The initial idea of circulating reports on pilot schemes soon proved unworkable because of the total number of projects. None the less, the reports are available to applicants at the Commission. Promoters have always been informed of earlier experimental schemes along the same lines.

7.47. Because of the length of the reports, summary records in the Fund's annual report and in the magazine 'Social Europe' highlight the most significant schemes. Organizations interested in the follow-up to these operations have ready access to this documentation.

7.50. It is true that so far the Commission has not developed a method for evaluating the results of preparatory studies and pilot schemes. However, under the new Regulation a system of evaluation and monitoring will be implemented.

7.51 – 7.52. See the reply to paragraph 7.19.

Furthermore, the innovatory character is not a condition of eligibility in the system in question. Job creation was not the only criterion for judging pilot schemes and since the purpose of the exercise was to experiment with new approaches, failures could not be ruled out.

Conclusions

7.55. The Commission was aware that this type of operation was less than perfect. The decision to make changes was taken in October 1983. Projects approved

under the old system have to be considered in the light of arrangements in force at the time of their approval.

The proposals that the Commission put forward for the new system which came into force in 1984 took account of what had been learned from the pilot schemes under the old Regulation.

The Social Fund does not have sole responsibility for Community research into vocational training.

The Commission would recall the relative size of the budget assigned to these operations (0.3 %) because of the existence of other priorities.

The Court maintains that eligibility can be checked only by on-the-spot visits. Although more information can be gleaned from such visits, promoters ought to be capable of explaining the gist of their projects in written documents. However, because of the wide range of the Fund's tasks and the need for sound management, only a sample can be submitted to on-the-spot checks with account being taken of the costs involved. As regards the observations in paragraph 7.55(c)(ii),(iii) and (iv), the Commission would point out that the appropriate conclusions have been drawn.

OUTSTANDING COMMITMENTS

7.56 – 7.62. The Commission agrees with the Court's analysis of the efforts made since 1986 to settle outstanding commitments.

⁽¹⁾ OJ C 126, 16.5.1988.

⁽²⁾ COM(88) 500 final.

CHAPTER 8

Research

REPLIES OF THE COMMISSION

PRELIMINARY COMMENTS

8.1. Over the years there have been four stages in the Community's evaluation policy:

- (a) the period before the 1983 Council Resolution;
- (b) implementation of the 1983 Council Resolution;
- (c) the evaluation action plan of January 1987 (following a new Council Decision in June 1986);
- (d) the decisions taken by the Council when it approved the research and technological development (RTD) framework programme (1987-91) on 28 September 1987 incorporating in each specific programme an article explicitly referring to evaluation.

In addition there is the proposal for the specific Spear programme (forming part of the Monitor programme) on the methodology of community evaluation of research programmes.

The Commission has been a driving force in evaluation at Community level (the RTD framework programme approved on 28 September 1987 provides for the evaluation of each Community programme; the proposal for the Monitor programme sent to Parliament and the Council at the end of July provides for the introduction of a '12 + 1' evaluation network to be coordinated by DG XII).

There is therefore no real difference of opinion between the Commission and the Court on the objectives to be pursued; the Commission's statements of intent as regards evaluation, which the Court has considered in its report for 1987, have since been followed up by the proposal for the specific Monitor programme sent to the Council and Parliament at the end of July, as stated above. This means that the specific RTD programmes under the 1987-91 framework programme will be evaluated in accordance with methods determined by the Council in collaboration with Parliament under the Monitor programme.

Finally, if the aim of evaluation is 'to produce a steady improvement in research', it must first and foremost contribute to achieving the scientific and technical objectives assigned to the RTD programmes while at the same time ensuring 'attainment of the Community's economic and social objectives'. It should be borne in mind that Community RTD programmes are either fundamental R&D or applied R&D or a mixture of the two and that the evaluation procedures must be designed accordingly; for instance, it is far more difficult to gauge the socio-economic impact of a fundamental R&D programme than that of a pre-competitive RTD programme.

8.2. The Commission would also point to the political and budgetary circumstances in which these programmes were renewed:

- An 18-month hiatus between the non-nuclear energy programme which ended on 30 June 1983 and the one which began in early 1985: the main reason for this was that, after agreeing on the scientific and technical objectives of a number of RTD programmes in late 1983, the Council (Research) was hamstrung by the Community's financial crisis which followed the deadlock at the Athens European Council in De-

ember 1983. To enable the Council to approve the Esprit programme in February 1984 and not subject it to further delay, the Commission was therefore obliged to block some of the appropriations for seven RTD programmes — including non-nuclear energy — until 19 December 1984 when the Research Ministers were able to agree on how to reconcile the scientific and technical objectives with the budgetary constraints. In the case of energy, presentation of the new programme was deferred to prevent any logjam within the Council; the Council then felt it had to consider this programme and the fusion programme together, since it felt that budgetary expenditure in the energy sector had to be assessed in relation to the other scientific and technical objectives of RTD (Stimulation, Brite, Biotechnology, etc.) and, within the energy sector, draw a comparison between fusion and non-nuclear energy.

- The conciliation procedure between Parliament, the Council and the Commission on the environment and materials programmes: completion of this procedure led to a delay of six months.

The structure of Community research

8.3. The first and second RTD framework programmes did not use the same methods and criteria:

- The second framework programme (1987-91) abandoned the matrix structure adopted in 1983.
- It no longer contains demonstration projects.
- Finally, the second framework programme comes under the new — binding — provisions of the Single Act while the first framework programme was based simply on a 1983 Council Resolution.

Evaluation by the Commission

8.4. (c) Although the shortage of budgetary resources did not prevent 27 evaluation reports from being produced, it is obvious that, in terms of quality, it did not

allow the completion, coordination and further examination of procedures as the Commission would have wished.

This problem should now have been resolved since the Council adopted a position on the evaluation procedures for the specific programmes when it approved the RTD framework programme (1987-91) on 28 September 1987.

(d) Parliament itself agrees, as was stated during discussion of Mrs Scrivener's own-initiative report in February 1987, that it is essential first to reach agreement on the methods to be applied for evaluating the specific programmes before adopting homogeneous or at least coordinated procedures.

The Commission had accordingly already started work in 1987 on a proposal for the specific Spear programme based on the study of the organization of the evaluation of research at the Commission.

The approach adopted by the Court

8.5 – 8.7. The Court's examination relates to the management of the raw materials, environment and non-nuclear energy programmes which was partly based on management methods predating the rules of procedure approved by the Director-General of DG XII/JRC in April 1985.

These rules and the criteria of the first framework programme (several partners and an international dimension) have been gradually applied as a matter of priority to RTD programmes corresponding to the Community's new RTD measures (Brite, Stimulation, Biotechnology, etc.).

FORMULATION AND EVALUATION OF THE IMPLEMENTATION OF THE COMMUNITY FRAMEWORK PROGRAMME 1984-87

Formulation and structure of the framework programme

8.10. As regards the future, it should be noted that the Commission proposed arrangements for coordinating

with the advisory committees in COM(87) 491 of October 1987 (A new outlook for the JRC). In particular, the appropriate advisory management and coordination committees will be periodically consulted to ensure that, where the case arises, shared-cost activities will be coordinated with national activities in the same sector.

8.11 – 8.12. As recommended by the Court, the Commission intends to pursue its efforts to restrict the number of specific programmes by preparing more 'integrated' programmes. However, the specific nature of research means that each case must be examined individually and rules out generalized solutions.

Furthermore, the growing role of research and technological development within the Community framework, resulting in a larger budget and a wider range of subjects, inevitably increases the number of specific RTD programmes.

Evaluation of the implementation of the framework programme

8.13 – 8.15. The Court rightly views the framework programme as a key instrument for the medium-term planning of scientific objectives and financial aspects. Being a planning instrument, the framework programme does not lend itself to evaluation exercises similar to those intended for the specific RTD programmes.

Although the Commission agrees with the Court's recommendations about the need to assess the influence which the scientific and financial guidelines of the framework programmes may have had on the preparation and adoption of the specific programmes, it cannot accept the principle of evaluating the framework programme in terms of the results obtained (RTD, socio-economic impact, etc.). This type of evaluation can be applied only to the specific programmes. In the case of the framework programme, it is the planning instrument that must be assessed.

DEFINITION OF SPECIFIC PROGRAMMES

Form of preparatory documents

8.16 – 8.18. The Commission can see that the Court is right in recommending that the draft proposal be rounded off at a very early stage with a text in a strict legal form and it will endeavour to do so in future. It has indeed drawn up a standardized legal text for the specific programmes.

Efficiency of consultation procedures

8.19 – 8.24. The Commission is of the opinion that a clear distinction should be made between the legislative procedure proper and the internal and external consultation procedures for the preparation of programmes.

Since the legislative procedure concerns the Commission's formal proposal and is governed by binding procedures, the Commission can influence only the external and internal consultation phase during the preparation of the proposal. The Commission is continuing its efforts to reduce the time needed for consultations at this preparatory stage. However, in view of the time needed for the legislative procedure and the preparation of a proposal, there appears to be no possibility of speeding up the decisions on these programmes to any significant extent.

8.23. When the decision was taken to cancel the Super Sara project in March 1983 the Council also fixed the overall level of resources to be allocated to the JRC for the next multiannual programme. The Commission therefore sent the Council a proposal for the 1984-87 programme which respected this level and which unfortunately could not cover all the proposals made by the ACPM in 1982.

Definition of the scientific content of programmes

8.25 – 8.26. The first framework programme (1984-87) defined the objectives of research and technological development.

The scientific content of the programmes is not given solely in the programme decision, which inevitably has to limit itself to defining the context.

With particular reference to the programmes mentioned in the report, it should be pointed out that, although the objectives of the environment programme have to be kept general, the research themes were clearly specified and a narrower definition was given in all the calls for proposals.

The general and specific objectives of the non-nuclear energy programme were described in detail in the documents drawn up in consultation with the ACPMs. The research themes were specified in the calls for proposals.

The Commission also feels that the freedom of manoeuvre it is allowed is a good thing, since in managing multiannual programmes it must enjoy some flexibility to take account of technological developments or unforeseeable events (such as Chernobyl) in the fields covered by the RTD programmes. It should be noted that the Commission does not make use of this freedom of manoeuvre without first consulting the management and coordination committees.

Objectives or fields of research

8.27 – 8.33. The Commission recognizes the importance of defining objectives and in point 1 of its plan of action relating to evaluation (OJ C 14, 20.1.1987, p. 5) stipulated that they should be laid down for every programme, if possible in a quantitative and verifiable form.

The research envisaged in the proposal for the Spear programme in the field of quantitative and qualitative indicators and the methodology of evaluation will also help in the definition and verification of these objectives.

Finally, as the Court notes, there can be no standard evaluation of the Community's RTD programmes since the procedures must take into account whether the programmes involve fundamental research, applied

research or a combination of the two in varying proportions.

8.29. From the report drawn up in May 1985 on the evaluation of the JRC non-nuclear energy programme between 1979 and 1985 the evaluation team was able to give a favourable assessment of the impulses which the programme had given to European industry while remaining consistent with the objectives of Community policy in the field of research and development.

8.30. While it is true that there was no formal amendment of the programme decision to take account of the outcome of the conciliation procedure referred to in the reply to paragraphs 8.5-8.7 (which ended in June 1986), it must be borne in mind that the successive budgetary restrictions have led to reductions in the scientific content of the non-nuclear energy programme; the Council's Working Party on Research was informed of these reductions as the records of its meetings show.

SELECTION OF PROPOSALS FOR SHARED-COST PROJECTS

Acceptable themes for research

8.35. Whenever themes were omitted from the calls for proposals, the management and coordination committees had been consulted and had given a favourable opinion.

8.36. When various texts have to be translated in succession, it can happen that some themes are given incorrect titles, thereby leading to misunderstandings.

Criteria for evaluation of proposals

8.37 – 8.41. The evaluation forms were for internal use only and did not cover all the selection criteria. The rules adopted by the Commission on 19 November 1986 — one object of which was to harmonize these criteria — were not applicable when the call for proposals was made.

The Commission shares the Court's view that the subsidy threshold should be adjusted in line with the nature of each research programme.

8.42. The Directorate-General for the Environment considered proposals in the light of only some of the criteria since duplication of effort is to be avoided.

8.43. The selection is made by a panel which produces its verdict not only on the basis of criteria (to which each expert may attach different weightings) but also in line with the personal assessment of its experts.

Publicity

8.44 – 8.45. Considerable efforts are devoted to information and assistance with the preparation of the proposals to ensure that all potential participants are reached:

- information documents;
- declarations of interest;
- network of contact persons;
- information meetings, etc.

The information campaign starts when the proposals are sent to the Council and does not wait for the Council to take its decision.

To avoid a high rate of refusals, the information and the call for proposals specify the priority themes contained in the technical section of the Council decision.

The criterion of the socio-economic impact of the proposals

8.46. The Commission agrees with the Court that the socio-economic impact of the proposed work should be indicated where possible and it will endeavour to see that this is done in practice.

Extent of the work of proposal appraisal

8.47 – 8.48. The Environment Management and Co-ordination Committee was able to give its opinion without discussion on 85 % of the 1 700 environment proposals, which the Commission and its experts had spent almost a year assessing, thus making the Committee's work easier.

Concentration of selection work in a small space of time

8.49. The hurried implementation of the two programmes mentioned was the result of undertakings which the Commission had to give during the conciliation procedure with the Council and Parliament.

8.50. See the reply to paragraphs 8.19-8.24.

Value of consultation activity

Consultation of DG XI

8.51. DG XI was consulted mainly on the relevance of the proposals for the Community's environment policy, which explains why a simplified form was used.

Calls for proposals or calls for tenders?

8.56 – 8.58. Although the freedom to make proposals was dominant in the case of the environment programme, the Commission endeavoured to add specifications wherever possible (e.g. the Building 2000 projects under the non-nuclear energy programme); however, it is obvious that these specifications cannot be included in calls for proposals for, say, the development of a new method for the evaluation of the toxicity of a chemical product.

MONITORING AND INTERNAL EVALUATION OF SPECIFIC PROGRAMMES AND PRODUCTS

Role of the advisory committees

8.59. Although the Management and Coordination Committee gave an opinion on the proposal for the 1987-90 (or 1987-91) programme, the Commission did not continue its preparations for this draft programme after its discussions with the Council in April 1986 on the future guidelines for the JRC (COM(86) 145).

Monitoring of projects and programmes by the Commission

Direct action

8.62. In its evaluation (COM(86) 145, Annex page 21) the JRC Scientific Council recommended that the planning document be replaced by a more flexible system also with long-term forecasts. The Council's discussions on the future of the JRC in April 1986 showed that the Member States wanted drastic changes. As a result it was not possible at that stage to establish a planning system involving long-term forecasts and the Commission had to use the existing planning system for the implementation of programmes for the remainder of the period 1984-87 while introducing the flexibility recommended by the Scientific Council.

8.63. The Council and Parliament had no criticism to make of the amount of detail given in the annual reports on the 1984-87 programme sent to them in accordance with the Council decision. The Commission will, however, make an effort to improve presentation.

Indirect action

8.64 – 8.66. Unlike the administrative and financial procedures which have been coordinated, the scientific and technical monitoring procedures vary from one programme to another. Within each programme there is a constant process of internal evaluation of individual

projects or groups of projects. There should be laboratory visits, meetings of contractors or regular scientific reports during the research. All the information produced by these various types of measure is made available to the external evaluation teams.

Internal evaluation

8.67. See the reply given in the preliminary comments.

8.68. There is continuous internal evaluation in the form of contractors' meetings or visits to the contractors by members of the programme management team. The findings are sent regularly to the appropriate management and coordination committee.

8.69 – 8.70. The Commission's proposal for the Spear programme provides for evaluation guidelines to be laid down which will supply the methodological approach and the criteria desired by the Court. However, the methodology and evaluation criteria will have to remain flexible and adapt to the specific features of each programme to be assessed.

EXTERNAL EVALUATION OF SPECIFIC PROGRAMMES

Mid-term evaluation of the JRC multiannual programme

8.72 – 8.74. The Commission intends to propose an overall mid-term evaluation of the current programme and the JRC Board of Governors must give an opinion on how this evaluation is to be organized (COM(87) 491, Annex II).

Organization and timing of evaluation exercises

8.75. As regards the timetable, the Commission has drawn up an evaluation plan for future years based on the criteria set out in the action plan on evaluation and in the

study referred to at the end of the reply to paragraph 8.4 and on the key dates of the framework programme.

8.76. As regards the external evaluation of the primary raw materials programme, full use was made of the expert report for 1978-84 when the 1986-89 programme was prepared. In particular, the panel's recommendations were fully taken into account.

The decision on the evaluation dates is the result of a difficult compromise: if too early, there are not enough results to evaluate; if too late, the evaluation has no effect on the establishment of the future programme. Since the primary raw materials programme covered the period 1982-85, evaluation took place between July 1984 and May 1985 so that recommendations could be made for the preparation of the new stage of the programme (the conclusions of the evaluation team were already available in May 1985). In such an evaluation it is normal for only partial results to be available for the programme under way (1982-85) while the evaluation panel can conduct a more detailed analysis of the results of the previous programme (1978-81).

8.77 – 8.78. The evaluation of the non-nuclear energy programme was undertaken in 1985 prior to the establishment of the JRC programme and was at first mainly concentrated on the JRC's activities. However, in order to provide a full picture of Community research in this field, shared-cost action was also analysed although, as the Court points out, evaluation was inappropriate in view of the timetable. The problems encountered during this evaluation once again showed that the evaluation schedule should be linked to the timetable for the programme, as stressed by the study referred to at the end of the reply to paragraph 8.4. Only those measures for which a proposal is to be made to the Council are now being evaluated. Measures in similar fields with a different timetable are taken into account to place the programme in question in its proper context, but they are not evaluated.

Content of evaluation exercises

8.79 – 8.80. Since the plan of action on evaluation for the period 1987-91 was presented to the Council, the terms of reference of the evaluation teams have referred specifically to point 3.4 of this action plan. Some of the shortcomings noted by the Court in these terms of reference have now been remedied.

Consultation of potential users

8.81. In stepping up its evaluation activities, the Commission has recently made a considerable effort to obtain the opinion of the users of research programmes. One example is provided by the evaluation of the biotechnology programme for which the panel visited a large number of potential users. Tests conducted by means of questionnaires showed, however, that direct interviews are essential (the reply rate from potential users who have not received contracts is very low). A call for tenders recently made by the Commission for interviews with the industrial users of research programmes shows that the average cost of such an analysis is over 1 000 ECU for each interview. Systematic use of this type of consultation could therefore prove too expensive and each case will have to be carefully assessed to determine whether this expenditure is worthwhile.

The Commission is continuing its search for a positive and satisfactory solution to these problems.

Composition of external evaluation panels

8.82. As a result of experience gained since 1985 the Commission has been able to improve the composition of evaluation panels. The composition of the panel recently appointed to assess the non-nuclear energy programme was consistent with the Court's wishes.

GENERAL CONCLUSIONS

8.86. (a) The Commission fully agrees with the Court's comments about the need to perfect the system on which it is already working; it is pleased to note broad agreement with the Court on the objectives to be achieved in this field.

However, no progress can be made until the Council adopts the specific Spear programme (which forms part of the proposal for the Monitor programme) in cooperation with Parliament.

Since 1983 the Commission has been trying to bring this problem to the attention of the Member States (management and coordination committees) and Parliament

(mainly through the organization of seminars) and gradually to develop and impose a methodology in this field at Community level. The methodological approach of evaluation must first be defined before the coordinated procedures suggested by the Court can be adopted; as soon as the Spear programme has been approved by the relevant institutions, the Commission will not fail to adopt measures in good time to ensure the necessary coordination of the Community's evaluation procedures.

(b) The Commission shares the Court's opinion on the importance of defining objectives; however, due allowance must be made for the specific features of the programmes.

In point 1 of its action plan on evaluation (OJ C 14, 20.1.1987, p. 5) the Commission has proposed that the objectives for each programme be specified, preferably in a quantitative and verifiable form.

The adoption of the specific Spear programme should also help to produce indicators and a methodology for evaluation which would be of valuable assistance in the definition and verification of objectives.

(c) In 1983 the Council failed to adopt all the amendments to this effect proposed by the Commission.

The decision-making and consultation process was laid down by the Council at that time and was strengthened by the provisions in the Single Act for involving Parliament more closely through the cooperation procedure. The Commission must now adjust its management instrument to the new procedures: this will be done step by step.

(d) The Commission agrees with this general comment and will do what it can to see that the Court is in practice given satisfaction, with due allowance being made for the specific features of each programme.

(e) While it is true that the framework programme must be the subject of permanent assessment, it should also be borne in mind that from the outset the implementation of the first framework programme came up against the budgetary constraints resulting from the financial crisis which the Community was having to contend with at the time. Every year this led to a delay in approval of the RTD programmes by the Council. In 1985 the Commission already drew the necessary conclusions from the implementation of the first framework programme in 1984 and early 1985 to propose a new approach to the Milan European Council (1985), which was first reflected in the provisions of the Single Act (late 1986) and then incorporated in the decision on the second RTD framework programme (1987-91) on 28 September 1987.

CHAPTER 9

Financial and technical cooperation with non-member States**REPLIES OF THE COMMISSION****FINANCIAL AND TECHNICAL COOPERATION WITH MEDITERRANEAN COUNTRIES**

9.2 – 9.8. As the Court states, operations financed from the EIB's own resources are outside the Court's audit powers, whereas the Court enjoys full rights over operations financed from the Community budget. The Commission will urge partner countries in cooperation or association agreements to accept practical arrangements that allow the Court to exercise this right to make on-the-spot audit visits. Furthermore, as the Court knows, the Commission is continuing its efforts to reach an agreement with the EIB on the matter.

The Commission would also refer to its replies to paragraphs 1.38—1.45.

FINANCIAL AND TECHNICAL AID TO LATIN AMERICA AND ASIAN COUNTRIES (ECUADOR, PERU AND BOLIVIA)

9.13 and 9.71. The Commission agrees with the Court that it is difficult for the Caracas delegation to supervise Community aid to Ecuador, Peru and Bolivia because of the distances involved and the small staff. A recent communication from the Commission to the Council proposed that Commission offices be opened in the Andean area.

*The system of financing and management***The EEC's own resources**

9.14. The Commission is aware that the department responsible for managing aid to Latin America and Asian

developing countries is short-staffed. Measures have been taken to remedy the situation gradually.

The recipient countries' contribution

9.21 and 9.23. It is true that there are difficulties with the Majes projects in Peru and the rural micro-project programmes in Bolivia but the issues are complex.

In most cases technical assistance is readily accepted by the political/administrative fabric of the recipient country. Even in the two cases referred to by the Court the difficulties encountered cannot be blamed entirely on the technical assistance. In both cases the technical assistance teams did their best to overcome these problems.

9.22. The Commission accepts the Court's criticism. In conjunction with the Peruvian Government it has taken the necessary steps to remedy the situation.

9.23. The institutional problem with the programme carried out in the administrative region of La Paz, Bolivia, has been settled by the government, which has placed the corporation under the supervision of the Planning Ministry for the execution of this programme.

9.26. Financing agreements and the relevant technical assistance contracts specify the tasks and responsibilities of the technical assistance teams and the operational mechanisms and organizational structures. The Commission none the less intends to provide more details of these aspects of cooperation in the framework agreements that it is planning to negotiate progressively with the main recipient countries or organizations.

The international development banks

9.30. Responsibility for the failure of the Ulla-Ulla project lies mainly with the World Bank, the major co-financer (90 % of total external financing) and also the 'administrator' of the Community's financial contribution. The recipient country, like the World Bank itself, is aware of this responsibility.

Joint financing with the Member States

9.32. In many cases, and particularly during the first years of this type of aid, the Community financed operations or projects with majority co-financing partners who assumed responsibility for managing the Community's financial contribution (administration agreements). In the case referred to by the Court (KfW), the partner is a Member State. Although the Commission should have monitored the situation more closely and although it did not receive progress reports as regularly as expected, the joint financer, as the Court itself states has managed the project efficiently and with due concern for the Community's interests.

The choice and implementation of the projects

The delays in carrying out the projects

9.57. As regards the two new structures, which did not alter the total amount provided under the financing agreement, it should be borne in mind that the spirit of the Commission's decision was to contribute to the rebuilding of communications infrastructure following a natural disaster (flooding).

9.58. The changes to the financing agreement were accepted because they were a positive attempt to match aid to the real needs of the recipient country. It had been found that the Community, without overstepping the amount originally planned (the contingency reserve included), could best help Bolivia by financing special machinery which could be used to rebuild several bridges, rather than by financing the reconstruction of a single bridge as initially planned (the bridge has in fact been rebuilt with Bolivian funds).

Delays due to Community decisions

9.59. The Commission agrees with the Court's analysis of the technical situation and difficulties described. It would, however, point out that the decision to suspend aid to Bolivia was taken for political reasons.

Delays attributable to administrative and banking circuits

9.60 – 9.65. The Commission set up an interdepartmental working party which, in the light of the Court's comments and other information, examined in depth ways of improving the execution of development operations. The working party has put forward concrete proposals designed to:

- simplify the organizational and management structure of projects;
- improve payment arrangements for contracts;
- speed up procedures in banking circuits;
- promote the use of the ECU wherever possible;
- ensure that procedures regarding internal and external payment circuits are as efficient as possible, with both recipients and managing departments being kept informed at all stages.

Dealing with monetary problems

9.67 – 9.69. The loss of value of Community subsidies is a complex and tricky issue. The Commission takes great pains to deal with this type of difficulty. Although the financial mechanisms are negotiated — and re-negotiated if the situation changes — in the case of exchange rates, it must be stressed that the countries themselves are powerless against runaway inflation, as was the case in Bolivia, and it is precisely then that they most need Community support.

Final observation concerning the three Andean countries

9.70. The Commission takes note of the Court's comments and is glad that its overall assessment of the results of financial and technical cooperation with the Andean countries is positive.

CHAPTER 10

Staff and operational expenditure**REPLIES OF THE PARLIAMENT****STAFF EXPENDITURE**

Parliament is prepared to participate, within the framework of interinstitutional cooperation, in a detailed study of the need for changes in the existing system.

*Invalidity pensions in the institutions***OPERATIONAL EXPENDITURE****General comments**

10.39 Parliament shares the Court's analysis of the causes of the phenomenon described in paragraphs 10.24 to 10.36 although the figures for Parliament are considerably better than for the institutions as a whole.

Expenditure on office accommodation by the institutions

At the end of 1987 the Medical Service introduced a system of systematic examinations every two years of officials retired from the service on the grounds of invalidity to check whether their retirement was still justified on medical grounds.

In order to remedy the various anomalies noted by the Court of Auditors in this area, the European Parliament has applied the following measures:

- (a) closer monitoring by the Medical Service of absenteeism on medical grounds,
- (b) more flexible procedures for reassigning or reclassifying officials or other members of staff when their state of health so requires.

Development of the institutions' accommodation policy

10.43 – 10.49. For obvious political and legal reasons linked to the Member States' failure to decide on a single seat for the European Parliament, the EP's accommodation policy in its three places of work is to rent premises despite the fact that Parliament would, in principle, be in favour of buying buildings.

The location of the premises occupied in Brussels is determined by the urban planning policy of the local authorities over which the institutions have no control. In Luxembourg, there is a policy of interinstitutional cooperation and negotiations with the Luxembourg Government to harmonize leases.

The comparison between the rents of the Court of Justice building in 1973 and the BAK III building in 1987 should be expressed in constant rather than in current terms; if

monetary erosion (Official index of the Luxembourg department of statistics and economic studies and the variation in the ECU/LFR exchange rate) is taken into account the two figures for the reference period (1973-87) are very close.

Terms of leases

10.50 – 10.51. In Brussels, a coordinated approach by the institutions to the owners/lessors would be no advantage unless the latter negotiated as a single body. However this is not the case, for example all the buildings occupied by the European Parliament in Brussels have different owners (Belliard, Eastman, Remard, Remorqueur, Ardenne).

In Luxembourg, interinstitutional cooperation has been set in motion at the initiative of the European Parliament with a view to the renegotiation of leases. The European Parliament regrets the lack of progress made by the two working parties (composed of representatives of the EP and the Luxembourg authorities) responsible for looking into matters relating to the European Parliament's buildings in Luxembourg.

Indexing of rents

10.52 – 10.55. The European Parliament shares the Court's view that any periodic adjustment in rent should be negotiated and that automatic indexation should be avoided.

Payments of national taxes

10.56 – 10.58. In the past, coordinated action has not resulted in non-payment of property tax. Parliament will continue its efforts to persuade the institutions to adopt the approach suggested.

Utilization of appropriations for the payment of rents (Article 200 of the budget)

10.59 – 10.61. The observations made in paragraphs 10.59 – 10.61 are not relevant to the European Parliament.

Conclusions

Coordination

10.71 – 10.72. The European Parliament recognizes the need for greater interinstitutional coordination and has embarked upon such an approach in Luxembourg (see answer to paragraphs 10.50 – 10.51 above).

Budgetary approach

10.77. The European Parliament fully endorses the arguments put forward by the Court.

REPLIES OF THE COUNCIL

EXPENDITURE ON STAFF

Management of staff salaries

Overtime payments

10.4 – 10.9. The pace of activities at the General Secretariat of the Council is such that it is virtually

impossible to make equally rapid use of entitlement to compensation obtained as a result of overtime, a situation which has resulted in a high number of compensation claims in the form of payments and a high number of accumulated compensation entitlements.

In order to cope with the situation referred to by the Court of Auditors, systems have been set up at individual level to check whether any thresholds are being exceeded. This has already borne fruit. Thus, a system of strict checks on any overruns of the statutory limit of 150 hours of overtime over a period of six months has been successfully introduced.

The particularly high individual figures of stored-up compensatory leave claims referred to in the Court of Auditors' report are being given special attention by the administration, which is endeavouring to reduce the impact of this situation.

Under the internal rules, 'time off for health reasons' should obviously be taken the day after overtime except in exceptional circumstances. In practice, it may happen that 'time off for health reasons' cannot be taken immediately after particularly busy Council sessions or during European Summits and that use of this right may have to be postponed.

In view of the pace of work in the Council's subsidiary bodies, the General Secretariat of the Council has not deemed it necessary to amend existing internal rules.

Three-quarters-time work

10.10. In line with other institutions, the General Secretariat of the Council considered it to be compatible with the interests of the service to introduce arrangements for three-quarters-time work for those of its staff who have family commitments. Experience shows that all those who take advantage of these arrangements have young children.

Taxation of overtime payments

10.23. In line with practice at the other institutions (e.g. the Commission) the Council considered it advisable to adapt the procedure for calculating tax in the same manner, i.e. by applying to overtime payments the rate applied during the month in which the overtime was worked.

Invalidity pensions in the institutions

10.24 – 10.40. The General Secretariat of the Council, with the other institutions, is looking into the problem of invalidity pensions.

OPERATIONAL EXPENDITURE

Expenditure on office accommodation by the institutions (points 10.41 – 10.77)

10.49. The average price per m² indicated by the Court was arrived at by dividing the total expenditure recorded in Article 200 of the budget by the number of m² occupied. It should be noted, however, that over and above rent proper the appropriations in this Article cover further expenditure, such as property tax, annual payments for fitting-out, and rental by the day of meeting rooms and other accommodation.

Taking as a basis the amounts paid in 1987 for rental of office space (111.900 m²) and basic rent (8,6 Mio ECU) alone, the rent paid for the buildings occupied by the Council is 77,0 ECU/m².

10.50. As regards coordination by the institutions on lease policy, it should be noted that, in the case of the General Secretariat of the Council, obtaining an additional building constitutes an isolated action ('Charlemagne' 1972, 'Joseph II' 1975, 'Nerviens' 1981, 'Orban' 1986).

In the case of the above accommodation, the General Secretariat of the Council each time contacted the other Brussels-based institutions to seek information on the market situation and to avoid overbidding on property for which there were several takers.

10.56 – 10.58. For its buildings in Brussels, the Council does indeed refund to owners the property tax which they owe to the Belgian State. However, it should be noted that these owners are private companies which, under Belgian law, cannot be exempted from property tax, even if their buildings are intended for the exclusive use of institutions of the European Community.

If the Secretariat, when negotiating the lease for any one of its buildings, had asked for the property tax not to be charged to the lessee, the owner would certainly have increased the normal rent by an equivalent amount.

It is known that the matter of property tax has already been raised on various occasions with the Belgian authorities, both by the Council individually and by means of the coordinated action of all the Brussels-based institutions.

10.61. (a) As regards the over-estimation of rents, it should be noted that the appreciable drop in inflation over recent years in Belgium has resulted in the appropriations requested being higher than the actual requirements. As for the Council, the transfer of appropriations made in 1987 from Article 200 represented only 4 % of the original appropriation.

(b) As far as the Council is concerned, when it is decided to increase the appropriations in Article 200 in order to enable an additional building to be rented, it is not at that point possible to estimate the cost of the fitting-out necessary to make a building suitable for the institution's requirements.

Thus, as regards the General Secretariat, the work on fitting out a building forms part of the overall negotiations on the terms for the rental of the building.

These negotiations usually lead to a compromise whereby the owner covers part of the cost of fitting out while a form of reimbursement is negotiated for the remainder of the investments.

It should be noted that the duration of these reimbursements never exceeds the term of the lease.

Observations concerning expenditure on meetings (points 10.78 – 10.84)

10.83. Article VII of the rules in force at the Council stipulates that the statements submitted by Governments concerning the reimbursement of the travel expenses of their officials need not be accompanied by the usual supporting documents (wagon-lit or TEE supplements and airline tickets).

This requirement would entail the General Secretariat of the Council's keeping a check on national civil servants responsible for submitting requests.

10.84. Double refunds should be ruled out for the following reasons:

- the Council pays the refunds of the travel expenses incurred by the bulk of Member States' delegates into the accounts of the various ministries concerned; if all the institutions were to apply this system, the risk of a double refund would be nil;
- delegates visiting the Council sign 'on their honour' a form stating that they have not applied to another authority or any institution or body of the European Communities for a refund of their travel expenses.

The General Secretariat of the Council is prepared, however, to consider this issue afresh.

REPLIES OF THE COMMISSION

EXPENDITURE ON STAFF

all cases which might end in decisions to retire the persons concerned on grounds of invalidity.

Invalidity pensions in the institutions

Statistics on invalidity pensions paid by the European institutions

10.24 – 10.26 and 10.28. Like the Court, the Commission is conscious of the recent increase in the number of staff invalidated out. Hence its intention to introduce a stricter monitoring system to ensure that both administrative and medical departments keep a closer watch on

The general increase observed by the Court in the number of staff invalidated out and in the corresponding expenditure since 1983 is partly the result of the ageing and deterioration in health of certain officials who took up employment with the institutions 30 years ago and are consequently approaching the end of their career.

10.27. The much higher number of retirements on grounds of invalidity in categories C and D is due to the fact that these two categories include staff whose

pathology is partly the result of their physical activity (laboratory technicians, laboratory attendants, certain drivers, transport and handling staff, and certain shorthand typists).

10.29. The institutions apply the procedural rules laid down in the Staff Regulations and no invalidity decision is taken without the Invalidity Committee being consulted. It should be remembered that different doctors sit on the Committee for every case, as each institution and each place of employment has its own representative, while the second doctor is chosen by the official concerned and the third one is appointed by agreement between the first two. The resulting objectivity guarantees that the procedure works properly.

Comparative statistics

10.30. It is difficult to compare the European institutions and the coordinated organizations, mainly because the conditions of employment are very different: the Community staff is made up virtually entirely of established officials whereas the other organizations, such as OECD, NATO and WEU, employ only a small core of established officials and a very high number of contract staff.

10.31. Comparison with the private sector is also difficult because the working environment of European civil servants is totally different from that of private sector employees engaged in a specific occupation; European civil servants are also subject to specific constraints which do not affect national civil servants.

The pension schemes of the European institutions and of the coordinated organizations

10.32 – 10.33. As the pension scheme and the joint sickness insurance scheme of the European institutions operate independently from those of the Member States it is difficult to imagine other social security organizations providing financial or medical support for Community officials during the period of sickness termed by the Court 'a period of temporary inability to work'.

However, since each case has to be examined in a special and quite specific context, it would seem unwise to be bound by a minimum invalidity percentage as defined by certain national schemes as their rigidity does not always

make it possible to achieve the aim laid down by the Staff Regulations, namely establishing that total permanent invalidity exists.

10.35. The Commission is familiar with the restrictions imposed by other organizations on recipients of an invalidity pension who are engaged in gainful employment elsewhere. It is planning to conduct a comprehensive study of this issue together with the other institutions.

10.36. Checks on whether beneficiaries continue to satisfy the requirements for payment of the invalidity pension are carried out by the Commission.

OPERATIONAL EXPENDITURE

Expenditure on office accommodation by the institutions

Development of the institutions' accommodation policy

10.43. The comment made by the Court is totally relevant in the case of the Commission, where the annual increase in staff numbers, combined with the large number of experts, national civil servants on secondment and contract staff, has produced a sharp increase in requirements.

10.45. The Commission would point out that it has been operating a building policy for some time now: 120 Loi has been completed, the Breydel building is under construction (the Commission owns both) and preparatory work has started on the Orban complex with a view to purchase with payment by instalments and/or a long lease.

10.46 – 10.47. The Commission would point to the proposal it made to the Council in 1982, during the discussions on the 120 Loi building, to create a multiannual investment budget; the Council failed to take up this proposal and earmarked an overall allocation for the 120 Loi project instead.

The Commission consequently proposed special financing arrangements, which the budgetary authority adopted.

Terms of leases

10.50. It must be pointed out that surface area is only one of the factors involved when it comes to fixing rent; other factors, such as a shortage of the type of accommodation required and the need for office concentration, also have to be taken into account.

10.51. The Court's comment has been acted on in that, where building alterations are carried out and paid for by the owner, the Commission works out a financial package, which is financed separately, usually at an annual rate, with equal annual repayments, which are not indexed.

As for the buildings themselves and the return on the investment, the Court's argument is valid only where the building being invested in is specifically for Commission use, as in the case of the Borschette Conference Centre. The value of property investments also depends on other factors including the market situation, the versatility of the building, the technical facilities offered, and location. When leases come up for renewal, the Commission attempts to obtain either reductions in rent or large-scale investment in the form of renovation.

Indexation of rents

10.52–10.53. There are rules governing the indexing of rents. Moreover, where an investment — in the form of improvements, purchase, etc. — is financed via the rent, no indexation is applied. Indexing would in fact amount to applying another interest rate (see paragraph 10.51).

10.55. Leases are usually concluded for a period of three, six or nine years, which means that rents can be readjusted every three years. This restriction in the duration of leases provides an opportunity to renegotiate, but constraints such as the situation on the property market and the administrative cost of removals have to be taken into account.

Payment of national taxes

10.56 – 10.58 and 10.75. Property tax is a direct tax payable by the property owner. It may by agreement be passed on to the tenant but it should be pointed out that where the owner passes on the property tax to the Commission, either by incorporation in the rent, or by a specific clause in the lease, the Commission is not eligible for tax exemption. This is because only the owner has any liability *vis-à-vis* the tax authorities and, once the payment in question is transferred to the tenant, in whatever form, it is no longer a tax.

By contrast, the Commission as owner does qualify for exemption.

In any event, the fact that it will have to pay property tax is taken into account by the Commission when it negotiates rents.

Utilization of appropriations for the payment of rents (Article 200 of the budget)

10.59. The Commission would point out that staff increases necessitated by the latest enlargement and by the new policies resulting from recent European summits have had a major impact on the budget heading in question (Article 200 of the administrative budget) and make it difficult to produce more accurate forecasts. Indexing can also play havoc with forecasts.

10.61. (a) The Commission would point out that, as far as it is concerned, the transfers referred to by the Court amounted to 3,4 Mio ECU in 1985 and 2,9 Mio ECU in 1986 and that in 1987 Article 200 in fact needed an additional 219 000 ECU.

(b) When a building is first rented, it is normal practice to charge the initial fitting-out, designed to make it habitable, to Article 200 (Rents). Article 204 is for routine work only.

Purchases

Council Decision of 14 December 1981

10.62 – 10.66. Producing an accommodation plan for a period of at least five years for all the institutions, to be covered by a multiannual budget, could be an efficient way of resolving the problems highlighted by the Court.

The Commission would make it clear that the advance payments connected with the construction of the 120 Loi building referred to by the Court in paragraph 10.65 were to cover preliminary studies carried out by subcontractors.

Conclusions

Coordination and technical and legal standards

10.71 – 10.75. The Interinstitutional Committee on Accommodation Policy produced valuable reports for Parliament.

As the accommodation situation varies from one institution to another, standardized management would not necessarily be in the best interests of the Community. However, it would be worthwhile reactivating interinstitutional cooperation, particularly to deal with standards, market research and preparatory budget work.

In the case of Luxembourg, the institutions have decided to make a concerted approach to the authorities in an attempt to rationalize accommodation policy. The lead role is taken by Parliament's Secretary-General, who is striving to introduce:

- a standard model lease; and
- an average rent per m², reflecting various factors including depreciation and indexation.

It has been agreed that, as soon as the preliminary conclusions are available, Parliament's Secretary-General will contact his colleagues in Luxembourg to enable each of the institutions to assess the implications for itself.

Justification of expenditure on rent

10.76. See the reply to paragraph 10.45.

Budgetary approach

10.77. The Commission would refer back to its reply to paragraph 10.46 and 10.47 where it recalled its 1982

proposal to the Council for the creation of a multiannual investment budget, a proposal which the Council has failed to take up.

Observations concerning expenditure on meetings

Committees and working parties

10.85 – 10.86. An interdepartmental working party has been set up to examine the problems associated with committees.

One of the decisions taken has been not to set up any more committees of officials eligible for daily subsistence allowance. Derogations are systematically refused, except in exceptional circumstance.

'APEX' data-processing package

10.87 – 10.88. This package represents a significant step forward in payments management.

In response to the comment on insufficient program documentation, the Commission would stress that 'APEX' has been developed in a third-generation language, which is easy to understand and to modify. Each function in the system is documented. A guide, which is in the process of preparation, will include a program flow chart and a description of how the system operates.

All the data recorded by 'APEX' are verified. Distances and maximum travel expenses are checked manually. There are no plans to make the input system more cumbersome by introducing additional checks as the data concerned do not constitute bases for calculation but simply indicative values.

Reimbursement of expenses

10.89 – 10.90. On the question of the reimbursement of expenses, the rule for calculating travel time incorporates three objective criteria: distance, method of transport used, and duration of journey. As regards air fares and supporting documents, new rules are being studied. Proposed amendments include lowering maximum rates and encouraging the use of reduced fare offers.

A guide to internal procedures currently being produced will specify the duties of meetings' secretaries and provide them with useful information on their work in relation both to their Directorate-General and to the administration.

Financial contribution by the Commission to a television channel

10.106. (a) Although the Pan European Consortium does not have legal status, the Commission felt that the broadcasting organizations concerned offered maximum guarantees regarding their financial situation ⁽¹⁾. However, the Europa-TV project was experimental in nature and depended for its survival on the determination of the Consortium's members to commit themselves to an initiative whose financial implications could not be accurately estimated

The real reason for the suspension of Europa-TV's activities was the failure by the other members of the Consortium to agree to cover the expenditure on programme production incurred by the Dutch channel (NOS), which provided the operational infrastructure for Europa-TV. Afraid that it might have to bear the financial costs of the project on its own, NOS withdrew from the operation.

It was consequently the operating flaws in the Consortium's internal machinery which resulted in the suspension of the Europa-TV service. The Commission for its part could not have foreseen that such an obstacle would arise.

(b) The absence of a detailed budget and a detailed programme criticized by the Court reflects the experimental nature of the operation, which did not slot into the normal works or supply contract framework.

(c) The obligations referred to by the Court could not be imposed as the operation had been suspended.

(d) The contribution was for 1986 only (see Article 1 of the Agreement). However, payment was not made to the Consortium until late October of that year. The delay in signing the Agreement meant that the initial percentage paid by the Commission was higher than normal.

⁽¹⁾ The footnotes are listed together at the end of the chapter.

In future the Commission will look into whether it should demand a security when it concludes agreements of this kind, still bearing in mind the special nature of such operations. As stated above the Commission has taken steps to recover the payments made; part of the amount involved is in the process of being recovered.

EUROPEAN SCHOOLS

10.109. The Commission is aware of the fact that its powers in respect of the European Schools are not commensurate with its budgetary liabilities. It is looking into ways of remedying this by modifying the intergovernmental system which has governed the Schools since 1957.

10.110. The new Financial Regulation for the European Schools, which was adopted on 18 October 1988, provides a solution to points (c), (d), (e) and (f) along the lines wanted by the Court. The Commission will look into the use being made by the Munich School of the special levy referred to in point 10.110(g).

10.111. The Commission has taken note of the Court's suggestion on the longer-term reform of the financial administration of the European Schools.

10.113 – 10.114. The Commission plans to start negotiations with the European Patent Office and the Board of Governors on the question of its contribution to the financing of the Munich School.

10.116 – 10.118. See the reply to paragraph 10.110(g).

10.119. The Commission has never accepted the unilateral decision by Belgium incorporated in the Belgian Royal Decree of 24 October 1986. On 4 January 1988, after an unsuccessful attempt to persuade the Belgian authorities to retract, the Commission issued a letter of formal notice under Article 169 of the Treaty; this was followed on 7 July by a reasoned opinion. The Board of Governors has since decided that any severance grants payable to Belgian teachers are to be calculated on the basis of a full national salary.

10.120. The amendments to the Statute of the European Schools currently being examined by the Commission include changes to the decision-making process designed to make it more efficient.

10.121. Drawing on its experience the Commission makes every effort to use its presence on the various School committees to promote the necessary reforms along the lines wanted by the Court.

REPLIES OF THE COURT OF JUSTICE

STAFF EXPENDITURE

*Management of staff salaries**Division of responsibilities*

10.11 – 10.12. At the Court of Justice the person responsible for the Finance Division, who is at the same time the institution's Accounting Officer, is in no case an Authorizing Officer.

The Court of Justice considers that the present division of responsibilities between the Personnel Division and the Finance Division complies with the principle of separation of functions between the Accounting Officer and the Authorizing Officer and constitutes at present the most efficient way of organizing the work of the departments concerned having regard to the constraints imposed by the modest size of the Court's administrative structure. However, depending on the results which are obtained following the planned computerization of the management of personal files, the Court might envisage a review of the division of responsibilities.

Preparation of pay

10.13 – 10.14. In view of its limited staff the Court's Personnel Division can at present only carry out each month an effective sample check on inputs into the salaries files. However, preparations are being made in cooperation with other Community institutions for the computerized management of personal files. This should allow a solution to be found to problems concerning the systematic control of inputs into the salaries files and access of the Personnel Division to data by means of a terminal.

Tax on overtime payments

10.23. The Court uses the Council's computer program for the calculation of salaries including tax on overtime

payments. The Court will adopt any amendments which are made to that program in order to give effect to the observations of the Court of Auditors.

OPERATING EXPENDITURE

Expenditure of the institutions on immovable property and rental of buildings

10.41 – 10.77. The Court of Justice is participating in the interinstitutional cooperation in Luxembourg in the matter of harmonization of tenancies and policy on immovable property. It will endeavour in the framework of its rent negotiations to ensure that account is taken of the cost of the investment and its amortization.

Observations concerning expenditure on meetings

10.91 – 10.92. The appropriations in Articles 250 and 255 are intended to promote the spread of knowledge of Community law, in particular the Court's case-law and the functioning of the preliminary ruling procedure, which is an essential instrument for the effective implementation of Community rules in the national legal orders. This is achieved firstly by means of study visits and meetings organized at regular intervals in co-operation with the Ministers for Justice of the Member States and secondly by means of individual visits or visits of groups of judges of all levels. In the latter case it is difficult to harmonize completely the practice followed with regard to the reimbursement of expenses, having regard to the considerable differences in the situation and origin of the persons invited. However, the Court is endeavouring to harmonize as far as possible its practice in this area. It will, where practically possible, arrange for tickets to be made available directly rather than pay advances. Moreover, the necessary measures will be adopted to ensure observance of Article 32 of the Financial Regulation.

REPLIES OF THE ECONOMIC AND SOCIAL COMMITTEE

STAFF EXPENDITURE

Taxation of overtime

Administration of staff remuneration

10.23. The ESC has now begun to calculate tax on overtime payments at the rate which was applied to the slice of the official's remuneration that attracted the highest rate of tax during the month preceding that of payment.

Preparation of payment

10.16. The ESC has two separate programs, one for salaries and the other for personnel management. These two programs do not automatically communicate, but the 'salary' operator has access to 'management' data and can incorporate them in his program; in practice, however, this option is no longer used.

OPERATING EXPENDITURE

10.17. The checking procedure proposed by the Court is not used at the ESC because of a lack of staff. As soon as staff are available, the ESC will ensure that this procedure is applied.

Immovable property

Procedure for payments

10.41 – 10.77. The Committee acknowledges the need to coordinate policy on office accommodation between the various institutions. Given the expansion of its activities and, consequently of its staff, the Committee is currently assessing the possibilities for adapting its premises. The Committee will of course take account of the conclusions contained in the Court's report.

10.18 – 10.19. For the 1988 financial year commitment orders were drawn up before salaries were paid.

Comments on the expenditure on formal and other meetings

Lack of a two-way flow of information

10.20. The new computerized accounting system will give the Authorizing Officers, the Financial Controller and the Accounting Officer direct access to all accounting data.

Verification of participation in meetings

Advances to staff

10.95. The Committee is currently examining the possibility of requiring members and experts to sign attendance sheets similar to those used by other assemblies, *inter alia*, the European Parliament.

10.21. Advances under Article 76 of the Staff Regulations are now paid in accordance with the conditions laid down in the Staff Regulations.

Allowances for travelling time and meeting days

10.22. The advance payments on salaries were granted in certain cases of *force majeure*.

10.96 – 10.97. This is a matter of interpretation of the 'Rules for the refund of transport expenses and the

payment of allowances for attending meetings and for travelling time', and in particular of Article 4 (g) thereof. Travelling-time allowances, paid in addition to meeting day allowances, are not based on the number of days actually required for the journey, but solely on the distance between the point of departure and the meeting venue (Article 4 (a)).

System for the payment of expenses

10.98 – 10.100. The Committee recognizes that arrangements for paying allowances are not strictly in line

with the current rules, but its administration is compelled to apply these arrangements by the specific requirements of a European Consultative Assembly. The problem referred to under 10.99 (a) could be solved by introducing imprest account arrangements. However, the Committee does not have enough staff for this.

As regards payment methods and the concern expressed in respect of Article 48 of the Financial Regulation, the Committee will pursue its efforts to persuade members not to insist on payment in cash.

(¹) Article 7 of the Consortium's Articles of Association states that 'The income of the Consortium shall consist of **member's direct financial contribution** as well as other revenue from sources such as advertising, sponsorship, programme sales, etc.'.

CHAPTER 11

Loans, borrowings and interest-rate subsidiesREPLIES OF THE COMMISSION**AGREEMENT REGARDING THE
AUDITING
OF NCI LOANS IN THE MEMBER STATES**

11.7 – 11.19. The Commission would refer the Court to the very detailed replies which it has already given concerning the informal 1985 agreement and the general question of on-the-spot audits of NCI loans (see the Commission's replies to the annual report for 1986, paragraphs 14.25 – 14.30).

Following the undertaking given by the President of the Commission in a letter to the President of the Court in April 1987, the Commission has made numerous efforts to find some practical arrangement to reconcile the powers of the Court with the concerns of the Bank.

The Commission's latest proposals on this subject will shortly be considered by a working party comprising representatives from the Bank and the Commission, which is expected to complete the task by the end of 1988.

**OBSERVATIONS ON LEGALITY
AND SOUND FINANCIAL MANAGEMENT***NCI Treasury*

11.27. The Commission welcomes the Court's broadly favourable assessment of the new cooperation agreement with the EIB regarding the NCI Treasury. As regards the more specific observations, the Commission's replies are set out below. It has taken note of the Court's suggestions and will consider them in consultation with the Bank.

11.28. The only risk borne by the Commission under the new agreement (which applies retroactively to the commencement of NCI Treasury operations) is that a debtor may default. However, given the status of the borrowers and their guarantors, the risk can be considered practically nil.

As regards the overall economy of operations, combining NCI funds with the Bank's existing treasury provided an opportunity to achieve management economies for the funds as a whole. However, the relative size of the two components means that the advantage gained is substantially greater for the management of EIB funds (which constitute the major part of the resources in question) than for the management of NCI funds.

11.29. The Court's fear that interest rates on loans might be fixed at an unnecessarily high level must, the Commission believes, be viewed in the light of the rule

requiring that the rate for NCI loans is the same as for loans granted by the Bank from its own resources.

11.30. Although the terms of the new agreement are more restrictive, in practice the Commission has continued to make refinancing arrangements for earlier, more costly operations, in full cooperation with the Bank.

The Bank gives its prior approval, as provided for under the agreement, in view of the fact that it has taken over responsibility for the Treasury and often has to advance commissions or redemption premiums not necessarily covered by the new financing in exchange for the benefit of the cut in the cost of the funds.

11.31. The Commission can see no need to undertake a detailed analysis of its administrative costs for each

financial instrument. This would be costly and seems unnecessary since the Commission does not perform any operations under mandate.

European Investment Bank management commissions

11.32. In its replies to last year's report the Commission promised to raise the Court's request with the Bank again. The reply was that the documentation requested remains restricted to the Bank's Board of Directors; this does, however, include a member, and his alternate, appointed by the Commission. The Bank also confirmed that it will continue to set its management commissions at a level designed simply to cover its costs.

PART II

European Development Funds

REPLIES OF THE COMMISSION

OBSERVATIONS ON THE FINANCIAL MANAGEMENT

Financial implementation of the projects

Special conditions of works contracts

6. The Commission is very much aware of the problems concerning the currency of payment of contracts and the effects of price fluctuations on contracts during execution.

As regards the currency, in which contracts are drawn up and paid, Article 48 of the Financial Regulation of the Sixth EDF — which has also been applied to contracts financed under the fourth and fifth EDFs — lays down special provisions for each type of contract in order to prevent contractors from making real financial losses or gains. It is clear, however, particularly for long-term contracts, that price variations during execution can upset the balance of the contract, thereby causing gains or losses for one or other of the contracting parties.

Since 1972 the Commission has therefore included price revision clauses in its General Conditions for works and supply contracts financed by the EDF.

Detailed comments and updatings on this complex issue are contained in the compendium of instructions. The Commission's constant concern, as revealed by these instructions, is that the application of the price revision clauses should not produce windfall profits.

In order to ensure that the price revision will be an accurate reflection of real developments, the Commission therefore recommends that more than one revision formula should be used and that only those parameters which have a definite impact on the cost of the works should be included; the contractor should also be left to bear part of the risk.

Similarly, the Commission recommends that the recipient government should be very careful in its choice of the indices on which revisions are based.

If there is no indexing arrangement in an ACP country or if the country from which the product in question is to be imported is not known, the contractor is requested to propose a reference price in his tender and provide the relevant supporting documents.

7–9. As regards the 11 contracts which the Court claims allow excessive compensation for price revisions arising from devaluation, the Commission would stress that to date in most of the cases mentioned the contractors have not made windfall profits. It cannot therefore be said that the Community has suffered financially.

In two cases the price revision formula has not yet been applied in respect of work now in progress. For other projects, the price revision is applied primarily to the cost of local labour and materials purchased locally.

However, in order to prevent the anomalies highlighted by the Court from arising wherever possible, the Commission will add a new instruction to delegates that when they are handling tender dossiers they must ensure that the price revision formulas are based on European market prices for the part payable in European currency and on local market prices for the part payable in local currency.

Commitments and payments

10. The Commission has the following comments on the Court's remarks about compliance with the Financial Regulation:

The instructions for headquarters and delegations describe in detail the payment arrangements for contracts of all types in order to facilitate the work of clearing and authorizing payments.

In general the Commission has found that procedures are applied correctly and that the supporting documents submitted with payment applications are reliable (originals or certified true copies).

Delegates must keep a register of bank guarantees for works contracts and for supply or service contracts so that they can monitor them and release them when appropriate.

The Commission can also confirm that although the Court's auditors for some reason or other were unable to trace the special conditions governing the various contracts referred to, they were accessible to the officials responsible for commitment and authorization of payment.

It is true that in the case of Burkina Faso out of all the many supporting documents for cofinanced projects, three provisional statements of account for approximately 300 000 ECU were missing from the relevant payment orders. These documents were at the delegation, which had checked them before sending the payment orders to the Commission. These payments were therefore verified, as were previous payments, by the adviser in charge of the project and by the delegate. The supporting documents have since been transmitted to the Commission and may be consulted by the Court.

As for the payment of 0.2 Mio ECU, the Commission has asked the Swaziland delegation for an additional set of supporting documents and these too can be consulted by the Court.

11. This paragraph refers to the following cases:

- Part-payments in excess of those contractually due
Two of the three cases (Guinea-Bissau and Chad) involved part-payments greater than provided for in the general conditions. The two contracts in question,

one for a study and the other for technical assistance, stipulated an initial payment of 50 % on notification of the contract, without a bank guarantee. It was not therefore an advance of no more than 20 % as laid down in the general conditions, but a part-payment calculated in light of the fact that when it was paid the work would already be well under way.

In the third case mentioned (regional project in the Central African Republic) it is true that a part-payment higher than contractually due was initially paid. The excess amount was, however, deducted from the following payment.

- Crediting imprest accounts (Sudan)
The arrangements for operating and checking imprest accounts are clearly set out in the instructions (1988 edition) and are sent to the administrators of these accounts for application.
- Contract denominated in a currency other than that of the bid (Djiboutan-Ethiopian railway)
The cost of the contract in ECU does not differ appreciably from that established for the adjudication of tenders.
- Service contract financed ten months after work had started (Guinea) This was the time it took the National Authorizing Officer to sign the contract.

12. While acknowledging the merits of having one department keep all the documents relating to a project, the Commission would point out that practical difficulties this would entail for the Commission and the delegations.

The supporting documents are checked to see if they are right and correct at the various stages of the procedure — clearance, authorization, financial control, payment — in accordance with the successive EDF Financial Regulations and with the general and special clauses of the contracts, as indicated in the compendium of instructions, a new edition of which was distributed in the first half of 1988. In order to allay the Court's misgivings, the Commission will add to its instructions to officials responsible for clearance and authorization of payment, details of what supporting documents are required.

Accounts

13. (a) The reason why transactions remain on suspense accounts is usually that they cannot be identified and related to a project for lack of information.

At 31 December 1987, four transactions dating from 1982 were still on suspense accounts, out of several thousand entries recorded annually. Two were eventually settled in June 1988, the other two are still pending.

(b) At 31 December 1987 approximately 25 % of the amounts outstanding involved VAT to be recovered from the Member States. On this point the EDF accounts department applies the procedures in force between the Commission and the Member States.

At the end of 1987, 61 % of the total amount to be recovered was due from a single firm which went bankrupt in 1985. The bank which stood surety refused to reimburse the sum paid and the Commission has brought an action on behalf of the government of the ACP country in question. The case is proceeding.

The Commission is continuing its efforts to recover the other outstanding sums due.

(c) At the end of 1987, apart from a very limited number of contested cases, only a reasonable number of entries remained on 'cash in transit' and 'unidentified items' accounts, which were virtually all cleared in the next four months.

Bank statements, which are filed regularly and in orderly sequence, can be consulted by the Court.

(d) The Commission will endeavour to improve the division of duties within the accountant's department, although this will be difficult because the department's staff is small.

(e) The figure of 2 800 000 ECU referred to by the Court concerns projects concluded or cancelled during 1988.

Cash management**Calls for contributions**

15. In December 1986 notification letters calling for 1987 contributions were sent to the relevant ministers in each Member State. The letters stipulated the due dates and the conversion rates for the ECU against national currencies. An error in the conversion rate, which was in fact pointed out later, was probably the cause of the incorrect payments observed by the Court.

The late payments referred to by the Court occurred despite the Commission's repeated reminders to the offices of the permanent representatives of the Member States in question.

Treasury accounts

16. Article 4 of the Financial Regulation applicable to the fifth EDF states that the Commission must 'as far as possible' distribute its assets amongst the various currencies corresponding to the proportion in which the currencies of the Member States make up the ECU. The corresponding Article 5 of the Financial Regulation applicable to the sixth EDF no longer refers to the ECU and provides for a distribution of its assets corresponding to the proportion in which the Member States contribute to the EDF, a requirement which the Commission endeavours to comply with.

In drawing on the Treasury accounts the Commission must allow for other constraints, such as the need to pay large amounts at very short notice in certain countries. The Member States have therefore agreed that the proportionality rule should be applied to periods of longer than three months to avoid unduly disrupting the flow of payments. Consequently, drawings on Treasury accounts during 1987 as a whole are Treasury accounts during 1987 as a whole are almost identical with the scale of contributions.

Bank accounts in Europe

17. The EDF has an ECU account in each Member State in order to promote the use of the Community currency and to protect itself against the risk of

devaluation. It has an additional account in Belgium and Italy for special local reasons and in order to obtain the best terms on the money market.

In France and the United Kingdom the EDF also holds national currency accounts which are used to speed up contributions to the 36 paying agents' accounts kept in French francs and pounds sterling. In the Netherlands and the Federal Republic of Germany there were two additional accounts in national currency at the end of 1987. One was closed at the beginning of 1988 and the other will be closed in the near future.

18. The procedure for applying Article 153 of Lomé III is to assign to Stabex the proportion of the interest payable at the market rate on the EDF accounts corresponding to the balance of Stabex resources not yet disbursed.

19. The Commission has conducted a survey among the various paying agents in the Community to find out the interest rates paid on its bank accounts. The survey showed that the rates applied in the Member States vary. Subsequently the paying agents have managed to obtain the best rates available in each Member State. Since then, the Commission ensures that competitive remuneration is offered by each bank.

Stabilization of export earnings

20. Under Stabex, loss of export earnings is calculated on the basis of ACP export values in ECU, in accordance with Article 160 of Lomé III.

In 1987 the result of applying the calculation method provided for in this Article was to reduce, or even eliminate altogether, transfers to all the ACP States, with the notable exception of the franc area countries. This can, of course, be put down to the depreciation of the dollar (the method was adopted precisely because some ACP countries wanted a hedge against the dollar's appreciation) but also, and above all, to the fact that many ACP countries have devalued and still devalue their currencies radically.

21. The rules on the use of Stabex transfers are much stricter under Lomé III than in the past and the Commission tends to interpret them to the letter.

The options open to the ACP States include:

- the use of Stabex transfers as contributions by the ACP States to development projects financed by the Commission and/or other donors;
- transfers to bodies such as marketing boards which are designed to guarantee purchase prices (and incomes) for producers;
- participation by the Commission, through the delegations, in defining *ad hoc* measures. This participation can range from prior consultations to regular monitoring of expenditure, primarily through special accounts to which the delegations have one of the 'keys'.

One of the special solutions adopted was to pay the transfer direct to the suppliers, as in the case of Sao Tome. This practice cannot, however, be made the norm, since, contrary to the Court's opinion it does not offer any major advantages over other solutions and it entails administrative complications.

OBSERVATIONS ON THE MICRO-PROJECTS

Legal basis and implementing directives

The role of the Commission delegate

31. Programmes were initially subject to a normal prior consultation procedure by the EDF Committee. Since 1978 they have been approved by accelerated procedure by the Chief Authorizing Officer of the EDF with the opinion of the Commission delegate and at the request of the recipient State, after approval by the Commission of an overall commitment authorization already endorsed by the Committee.

When a programme has already been approved in Brussels, the delegate is authorized to reach agreement with the local authorities direct on each project to be financed.

Appraisal of the micro-projects

Devolution of the procedure for approving projects

33 – 37. Lomé III provides even greater scope for devolution and decentralization of procedures, since after approval by the Chief Authorizing Officer it is the ACP State which, as it receives projects from the local authorities, takes the corresponding individual financing decisions and submits them to the Commission delegate for agreement. Departmental instructions are very clear on this score and only in cases of doubt should clarification need to be sought from DG VIII in Brussels.

The wording of Lomé III with regard to micro-projects is more general and flexible precisely in an attempt to increase adaptability to any situation. Programmes need no longer be annual and can thus span a longer period. Two- three- and four-year programmes have been approved under the sixth EDF (see paragraph 37).

34 – 36. The Court's comments concern special situations which the delegates thought should be referred to Brussels.

37. The remarks refer to the previous occasional practice in Swaziland (under Lomé II) of submitting single micro-projects on a piecemeal basis for commitment. This procedure created additional administrative work. However, the Commission accepted this extra burden only on a temporary basis, pending the establishment of a proper multiannual programme. Such a programme has now been established under Lomé III (3 Mio ECU), including a technical assistance component to ensure smooth implementation (over four years), training and guidance of the local administration.

The existence of a real priority need at local level

38. The Court's comment refers to examples which are dealt with in the following paragraphs.

39. The Côte d'Ivoire micro-project programme financed under the fourth EDF was primarily a social programme. The programmes financed under the fifth EDF mainly involved local communities in the production sectors. The micro-projects to be financed under the

sixth EDF will have to comply with the guidelines of the indicative programme. The Court's comment therefore no longer applies to present practices.

Since 1983 the delegation in Madagascar has taken great pains to get the government to present dossiers for each individual project, which it now does.

40 – 42 and 56. An essential factor in approving and of course assessing the suitability of a micro-project is whether the initiative was taken by the local community. This depends largely on how well informed the local people are and on their ability to identify their needs and to formulate the request to the government of the recipient ACP State. The NGOs which work on the spot also play an important role in this area. Furthermore, two of the main tasks of the independent central management department which the Commission wants to set up in each country to promote, coordinate and make use of micro-projects, are to inform the local community of the possibilities offered by the programme and to provide assistance in drawing up requests.

If micro-projects are to work, it is vital that the recipient communities be well-organized, their representatives be trained and assistance be provided during implementation. These are therefore also some of the tasks to be carried out by the central management department.

41. It is true that in Togo some of the operations under the fifth EDF micro-project programme did not really correspond to the needs of the recipient population — for example some of the food warehouses. The Togolese Government has, however, decided by common accord with the Commission to lay particular emphasis on the 'response to a priority need on the part of the local communities' aspect in drawing up the Lomé III micro-project programme.

Guarantee of the active participation of the local community

43 – 46. The contracting parties to the Third Lomé Convention also recognized that flexibility was needed as regards the EDF contribution to each project. Accordingly, Article 202 ⁽²⁾ of Lomé III states that in exceptional cases the Community contribution may exceed two thirds of the cost. Once again the formal stringency of Lomé I and II has been replaced by a flexibility more conducive to attaining development objectives at local level. Participation by the recipient States has become optional and the local community's contribution can be, for example, to cover maintenance costs.

43. The local community played an active part in almost all the projects in Senegal. Some projects were none the less financed entirely by the EDF, but with a contribution in kind (materials) or in the form of supply of services (days of work) from the recipient communities.

44. The delegation in Madagascar has always ensured that local people have actually requested projects and been involved in planning them. It is possible that during implementation the degree of local involvement may not have been entirely satisfactory.

45. Using staff from other EDF projects to assist on micro-projects is the proof of efforts to link up operations in the field, which is a sensible way of making the most of limited resources. Lomé III, after all, provides for the financing of technical advisers.

Viability of the micro-projects

Mobilization of the contributions

48. In order to avoid the difficulties and delays referred to by the Court, the Commission and the ACP States have decided to alter the provisions of Lomé III to make the ACP State's financial contribution to micro-project programmes optional.

Assimilation of the micro-projects by the users

50. The situation described in Sierra Leone has now improved.

51. A great deal of the work in the Niger project involves sinking wells for market gardens for which the only recurrent costs are dredging, which is usually carried out by the villagers themselves. In the Badeguicheri project, for example, the Court will have seen on its visit that the wells which date from 1975 are not silted up and are operational. Moreover, the subregional authorities pay for the volunteer's rent. In the final analysis these projects are appreciated by the local people, even though

they are sometimes unable to participate as much as hoped because of their workload.

Social aspects of the micro-projects

54 – 55. Socio-economic relations within a community are studied and taken into account when micro-projects are planned and implemented, since these projects must make a real contribution to the development needs of the local communities.

It is possible, however, that of the many micro-projects carried out to date, some may not have come up to expectations for reasons which are difficult to appreciate at the beginning of a programme, especially if they are connected with a group's unexpected reactions to a new situation. Despite a few inevitable failures, the micro-project programmes on the whole are generally considered a success by the beneficiaries.

Implementation and follow-up of the micro-projects

Role of the national authorities

56. See the reply to paragraphs 40-42.

57 – 63. Technical assistance was hardly used under Lomé I, a little more under the fifth EDF and it is now the norm for programmes approved under Lomé III. Technical assistants are primarily intended to provide back-up for the central coordination body or to fulfil that body's function if one does not exist. Technical assistants also help the local communities in setting up administrative structures enabling them to manage the micro-projects themselves.

When a micro-project programme is small-scale the high cost of conventional technical assistance can eat up too much of the EDF contribution. For this reason volunteers or NGOs are often asked to assist.

58, 64 and 71. The delegation has long been aware of the problem raised by the Court in relation to Malawi and has taken appropriate measures which include the

recruitment, two years ago, of two VSOs (self-help personnel constantly operating in the field) to supervise implementation of the micro-projects. This has already had a positive effect on the programme management.

Future increases in their effectiveness combined with the dissemination of an instruction manual for micro-projects, will permit further improvement in the situation and enable the delegation to control operations more effectively.

Cost of technical assistance and complementarity of the micro-projects

60. The Commission has taken note of the Court's comments on technical assistance financed under micro-projects. It is currently studying the whole issue, particularly with regard to technical assistance in large-scale programmes.

61. This ceiling is not a hard and fast rule. In the case of Tanzania a technical assistant was vital for the programme to be a success — which it was.

62. The micro-project programme was coordinated better and implemented faster because the EDF bore some of the operating costs of the follow-up unit, which is part of the Ministry of Planning's Directorate for Regional Development and Micro-projects.

64. The Commission has constantly endeavoured to ensure that micro-projects complement other development operations, and this is particularly true under Lomé III. Although the Convention does not restrict micro-projects to the scope of Article 187, most of the programmes approved under the sixth EDF have a link with the focal sector(s) of Community aid.

The pace of micro-projects implementation in Sierra Leone continues to be slow, owing to shortages of supplies (fuel, cement, etc.) and to administrative weaknesses. Effectively there is no Government agency or local administrative unit with the capacity to implement these projects, so that the National Authorizing Office (NAO) has taken responsibility for the task, although it too lacks administrative and transport resources. The NAO has recently requested that two volunteers be provided to assist in micro-project supervision and management, and this proposal has been accepted in principle. The delegation is now making arrangements for

their recruitment from NGOs represented in Sierra Leone.

Financial execution of the micro-projects

66. The situation as regards micro-projects in Kenya has improved markedly since 1985. The advance paid when the financing agreement is signed has been reduced to 50 % and the balance is not paid until the work (mostly schools or water supplies is completed). Furthermore, the rule now is that not more than two micro-project programmes can be financed at the same time. As regards the appraisal stage, the quality of the preparatory studies carried out by the relevant ministry has improved significantly thanks to the technical assistance of one of the Member States.

Evaluation and monitoring of the micro-projects

67 – 70. The Commission now evaluates micro-projects on the basis of the delegate's annual reports, his final reports drawn up in conjunction with the recipient government after each programme is completed and more general assessment reports from independent experts. The technical assistant and the coordination unit, and of course the Commission delegate, are responsible for monitoring the project.

Final observations

72 – 75. As regards Lomé I and Lomé II micro-projects, which are the subject of the Court's report, the Commission has concluded a contract with a team of independent experts which is currently completing a lengthy and exhaustive evaluation report. This will help the Commission to further improve various aspects of the micro-projects programmes.

Without awaiting the conclusions of the report, the Commission had already identified the difficulties sometimes encountered in implementing micro-projects and had learnt from its experiences of the first two Lomé Conventions. With the agreement of its ACP partners, it has therefore adapted the provisions of Lomé III and drawn up new instructions for the relevant departments and the delegations.

On a general level, since thousands of small operations are involved, these provisions should help to prevent past problems even though it will always be difficult to apply the same identification, approval and monitoring criteria as for conventional projects.

OBSERVATIONS ON EMERGENCY AID

General replies

The essential question as regards emergency aid is whether it has achieved its objective, namely whether it has been provided as soon as possible after the agreement of the countries concerned and whether it has saved the lives of disaster victims or relieved their suffering.

Consequently the Commission is expected to act promptly and effectively, taking into account the objectives to be attained and the fact that emergency situations can change so rapidly that implementing arrangements must be as flexible as possible.

Appraisal of the aid

82 and 84. More thorough appraisal of requests could well hold up implementation of the aid measures. The Commission is fully aware that speedy appraisal can lead to errors but it is willing to take that risk when lives are in danger.

83. (a) The Commission decision in April 1981 (1 500 000 ECU) was in response to a request from WFP/ UNHCR, which had estimated the number of refugees in need to be 80 000.

The Government of Zaire had estimated the Ugandan refugee population at 200 000 in January 1981.

UNHCR continued to use this figure of 80 000 refugees and actually increased the estimate of the number of refugees to some 125 000 in late August 1981.

The statement by the Court that refugee numbers never passed 40 000 is based on a survey undertaken in April 1982, one year after the Commission made its decision. The results of this survey may not be valid for the situation in April 1981, when the Commission took its decision, and in the light of the massive return of Ugandan refugees from Zaire in early 1982.

(b) The requirements calculated on the basis of information received from the Senegalese Government turned out to be overestimated primarily because of a better harvest than initially expected. The resulting surplus (800 000 ECU) was used to finance another operation in a vital sector, namely the supply of maize seed (146 000 ECU) and cowpeas (654 000 ECU). Although it is true that the operation was complex (paragraph 103(a)), it was none the less a more suitable and economic operation than simply distributing seeds in the usual way.

(c) The 24 % (490 000 ECU) constituted a reserve to meet requirements arising from requests which had not yet been formulated in detail. The sum was allocated as follows:

Unicef	40 000 ECU (nutritional programme)
Government	64 000 ECU (purchase of seeds)
NGO	386 000 ECU (additional transport costs)

85 – 86. The report raises doubts about the justification of financing, as emergency aid, complex operations which presuppose a large volume of resources. The scale of disasters can vary widely and in some cases millions of lives are at risk, which clearly involves large amounts of emergency aid. In this case Commission decisions can be seen as framework decisions within which concrete measures requiring very flexible implementation are financed, as and when specific requests are received. A distinction must therefore be made between appraisal of cases with a view to framework decisions and appraisal of concrete requests for measures.

Implementation of the aid

Implementation time-limits

87. It should be pointed out that on the question of the extension of operations beyond the period stipulated (usually six months), when measures are implemented in the field they often come up against unforeseen dif-

difficulties which are hard for the Commission's partners in the operations (Governments, UNHCR, NGOs, Red Cross, etc.) to overcome. Moreover Lomé II offers the possibility of extending the implementation time-limit, whereas Lomé III no longer includes any binding provision on time-limits except for the commitment of appropriations (six months).

88. The 1.5 Mio ECU of aid was disbursed within four to six months. Only the 175 000 ECU used to purchase 75 tonnes of sugar and to transport other aid (programme implemented by Licross) was granted an additional time-limit by the Commission for this exemplary operation because of the difficulties met by the Red Cross, such as lack of basic foodstuffs, documents required for clearing accounts not produced by the authorities and/or persons providing services.

89 and 95. (b) Delays in receiving the necessary government approval led to a late start-up of this operation. In addition, the very magnitude of the food and relief needs and the inadequate logistical transport and port facilities resulted in certain delays in transport of food. The serious food needs in remote areas of Western Sudan were identified by a Commission mission in April 1985 and one month later the Commission set up a Community airbridge, with the active participation of the Member States, which at the height of the operation had 11 aircraft operating. This airbridge won international acclaim and during the rainy season was the only way of transporting food to the West, when this region was totally inaccessible to land transport.

The constantly changing situation in Sudan, which lasted well into 1986, meant that certain programmes were necessarily extended, while others were modified or stopped in the light of changing requirements and the unutilized funds were reallocated to other urgent actions.

90. Completion of this operation (64 000 ECU: purchase of 813 tonnes of seeds) was delayed for lack of available seeds in the area. The Mauritanian Government had to purchase the seeds piecemeal from villagers.

91. This concerns the Dublin Plan, under which Ethiopia was allocated (from Lomé and the Community budget) a total of 55 300 000 ECU as emergency aid. While allocations under this framework decision were made on a case-by-case basis, the priority actions and the major part in financial terms were decided and under way in the first weeks following Council adoption of the Dublin Plan.

The project at 91 (a) was financed from a balance which reverted to the Commission, following only partial utilization by the Ethiopian authorities of an allocation for the purchase of seeds. When the size of the unutilized balance — due to the difficulty of finding suitable seed in time for the planting season — became known, the

Commission moved quickly to reallocate the unspent balance at end June 1985 for, *inter alia*, the United Nations transport project.

In this respect, there was a delay by the UN in utilization of the final tranche (500 000 ECU) of this allocation by UN/World Food Programme (WFP), which was for the supply of vehicle spare parts. The UN attributed this delay to the need to postpone precise identification of spare parts requirements and their specifications, pending the arrival of additional trucks and trailers which were in the course of delivery.

92. The project proposal appended to the contract for this operation had envisaged that the biscuits (715 000 ECU) would be distributed over a 10-month period from September 1986 to June 1987. In the event, all biscuits were distributed by May 1987.

Extent to which objectives are achieved

94. The deficiencies noted by the delegation, which were deficiencies in the UNHCR programme as a whole and not specifically the Community-financed part of it, were brought formally to the attention of UNHCR, which undertook to take corrective action to remedy them.

95. (a) During the 1984 drought, most of the donors providing emergency aid in Senegal refused to include transport because of the difficulties involved.

To ensure maximum effectiveness, the Commission, despite the cost, covered the cost of distributing its aid and part of the aid from other donors. Despite the fact that 'the places served by dirt tracks were not able to receive the food intended to them because of an early rainy season', overall results were positive.

(b) See paragraph 89.

Coordination between the various parties involved

96 – 97. It should be noted that when the Dublin Plan was implemented, an unprecedented effort was made in Brussels and on the spot to coordinate action at Community level with the Member States (for example in Sudan, where a coordinated operation with the Member States provided an airlift using 11 large transport aircraft from the Member States with logistic and financial support from the Community. Operations were similarly coordinated with the NGOs with the setting up of ECEP (European Communities emergency programmes) (Sudan, Mali, etc.) to divide up operations on a functional and/or geographical basis.

98. At international level the degree of coordination varied from country to country but it was in Ethiopia that most efforts were made to coordinate aid, particularly because of the presence of a representative of the UN Secretary General.

It is true, however, that coordination between NGOs was not satisfactory in that country. But with the delegation's encouragement the situation has improved significantly, to the extent that the system of coordination there is now a model of its type.

Control and monitoring of the aid

Control and monitoring of the management

102. Only the report from Licross is missing (120 000 ECU) for the 10 Mio ECU project, although Licross has sent in its general report on the situation in Mali.

103. (a) See point 83(b).

(b) The operation to supply water to the town of Atar (395 000 ECU), for which previous requests for finance had been made under the indicative programme, had become vital for its inhabitants during the drought of 1984-85. Although the wells were developed with financing for micro-projects, the question of transporting the water — just as necessary, if not more so, than the transport of other aid — was not resolved. In February 1986 the Mauritanian Government sent the delegation a statement of the contribution to transport costs by the least needy section of the population. At the time it was

decided to administer these funds in the same way as the other counterpart funds, since emergency aid was no longer justified.

(c) In the case of the Unicef water supply project (1 Mio ECU), since procurement of supplies and equipment would need some time, and so as to speed up the implementation process, it was decided that the project would be implemented using Unicef stocks already in Ethiopia and that the Community contribution would be subsequently used to replace these stocks.

104. (a) The only payment made for this operation was when the Commission accepted a final report from UNHCR, including acceptance of the change in use of these funds, after which the project was immediately closed.

The Commission recognizes the need for flexibility in implementation of emergency aid in view of changing requirements and priorities, but does stipulate that any change be subject to its prior agreement. The question of the change in utilization of Community funds, without prior Community agreement, was raised with UNHCR in the context of this project, which undertook to take all measures to prevent such shortcomings in the future. In this particular case, given that other donors would have also been financing this refugee programme via UNHCR, it is likely that the essential relief items were supplied in cash or in kind from other sources and that accordingly the Commission was requested to finance the transport expenses which were not covered.

(b) Following the Commission decision, the Somali National Refugee Commission asked for modifications in the Commission's intervention. Subsequently an agreement was made between the Somali Government, UNHCR and Comité européen d'aide aux réfugiés (CEAR) (Community's implementing partner) changing the nature of this operation (450 000 ECU) which was acceptable to the Commission.

105. The six replies received in the meantime were sent to the Court in July 1988 and at the same time a reminder was sent for the two missing replies.

Control of payments

106. (a) Payments of emergency aid are sometimes made in local currency in the ACP States and sometimes

in Brussels in foreign currency. Once an operation is entered in the accounts, a copy of the new accounting situation with the ECU equivalent is sent to the delegation in question.

(b) It is true that until receipt of the accounting card recording an operation, the ECU equivalent is only provisional and approximate.

(c) Brussels pays out at the request of the delegations in order to speed up payment of emergency aid. The delegations keep the supporting documents which can therefore be verified on the spot.

107. (a) The Commission is looking into the discrepancies observed by the Court.

(b) There is only one valid figure for payments corresponding to the operation in Mauritania referred to by the Court, namely 455 632,53 ECU, since the delegation's entries are only provisional.

Closure of project accounts and utilization of remaining appropriations

108 – 110. The Commission is well aware of the importance of closing accounts. In the vast majority of cases observed by the Court, although accounts had not yet been formally closed, appropriations had been expended, in full so that there was no outstanding balance to be reallocated to the special appropriation. Moreover, there has never been a shortfall in the special appropriation, since at the end of Lomé II 9 Mio ECU remained.

Third Lomé Convention

111. Unspent appropriations will be reallocated to the special appropriation in due course. The special appropriation was still at 175 Mio ECU at the end of 1987, out of the 210 Mio ECU provided for in Article 205 of Lomé III.